

NAVAL POSTGRADUATE SCHOOL

Monterey, California



THESIS

AN ANALYSIS OF THE PROPOSED LAND LEASE
AGREEMENT BETWEEN THE NAVAL POSTGRADUATE
SCHOOL AND THE CITY OF MONTEREY, CALIFORNIA

by

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March 2002

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THE NAVAL POSTGRADUATE SCHOOL AND THE CITY OF MONTEREY,
CALIFORNIA**

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ABSTRACT

A constant in today's Department of Defense (DoD) is the push for installations to save money by privatizing and outsourcing service functions currently performed by Federal Government employees. As an alternative to privatization and outsourcing, installations are looking increasingly towards cooperative public-public and public-private partnerships to facilitate innovative cost saving initiatives. The success of current DoD partnering initiatives suggests that government's partnering with municipalities to reduce the cost of installation support services could produce substantial savings.

This thesis examined the proposed land lease agreement between Naval Postgraduate School (NPS) and the City of Monterey as a means to reduce facilities operation and maintenance costs and provide capital improvements to facilities infrastructure at NPS, while also providing additional recreational facilities and maintenance responsibilities at competitive costs for the City of Monterey.

The method of analysis included a literature review of business practices and industry publications associated with partnering initiatives, and semi-structured interviews conducted with 23 individuals from three primary stakeholder groups.

Findings indicate that NPS and the City of Monterey could benefit from the proposed agreement in terms of cost savings, improved infrastructure, and recreational assets for the City. Implementation difficulties include

substantial differences in terms of cost accounting practices, communication and decision-making structures, and corporate cultures.

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LIST OF ACRONYMS

AMP	Access Monterey Peninsula
ASA	Administrative Support Assistant
AFB	Air Force Base
BASOPS	Base Operation and Maintenance Service
BRAC	Base Realignment and Closure
CSUMB	California State University, Monterey Bay
CIP	Capital Improvement Program
CNA	Center for Naval Analysis
CNO	Chief of Naval Operations
CDC	Child Development Center
CA	Commercial Activity
COTS	Commercial Off-the-Shelf
CORM	Commission on Roles & Missions of the Armed Services
CECOM	Communications Electronics Command
CA	Cooperative Agreement
DLI	Defense Language Institute
DLIFLC	Defense Language Institute Foreign Language Center
DRI	Defense Reform Initiative
DoD	Department of Defense
DoN	Department of Navy
DOC	Directorate of Contracting
DPW	Directorate of Public Works
EFA	Engineering Field Activity
EMD	Engineering and Manufacturing Development
EA	Environmental Assessment
FMV	Fair Market Value
FAR	Federal Acquisition Regulation
FSA	Field Support Activity
FBM	Fleet Ballistic Missile Program
FA	Functionality Assessment
GAO	Government Accounting Office
HHMT	Hand-Held Multi-Media Terminals
IT	Information Technology
IDE	Integrated Digital Environment
IME	Integrated Management Enterprises
IP PDT	Integrated Process/Product Development Team
ITT	Integrated Test Team

JPA	Joint Powers Agency
LAV	Light Armored Vehicle
MARCORLOGBASES	Marine Corps Logistics Bases
MEO	Most Efficient Organization
NAID	National Association of Installation Developers
NPS	Naval Postgraduate School
NSAMB	Naval Support Activity, Monterey Bay
NIP	Neighborhood Improvement Program
OMB	Office of Management and Budget
O&M	Operations and Maintenance
OMC	Ord Military Community
POM	Presidio of Monterey
PPWA	Presidio Public Works Agency
PEG	Public, Education, and Government
PW	Public Works
QDR	Quadrennial Defense Review
RSIP	Regional Shore Infrastructure Plan
RCAS	Reserve Component Automation System
RBA	Revolution in Business Affairs
REA	Revolution in Educational Affairs
RMA	Revolution in Military Affairs
SOW	Scope of Work
SIK	Services in Kind
SOW	Statement of Work
SWOT	Strengths, Weaknesses, Opportunities, and Threats
SME	Subject Matter Experts
USCPW	United States Army Center for Public Works
USMC	United States Marine Corps

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I. INTRODUCTION

A. BACKGROUND

The Naval Postgraduate School (NPS) proposed the concept of outgrants to the City of Monterey, in January 2001. The proposal covered three distinct areas of NPS and three different real estate agreements. The first agreement involved a land lease agreement that would allow City of Monterey residents to use a portion of NPS for recreation, i.e., the Del Monte Lake Park area, the baseball field, and the land surrounding the Del Monte Lake. Monterey residents could use these areas as a neighborhood park facility and the City of Monterey would provide upgrades and maintenance of these areas. The second agreement involved a license that would allow the City of Monterey to use approximately 59,200 square feet of land and approximately 8,165 square feet of building space in the NPS transportation yard for City vehicle maintenance. The third agreement involved granting an easement on the NPS property along Sloat Avenue. The City of Monterey would use this property to develop a safe bike trail from Del Monte Avenue to Mark Thomas Drive and provide additional parking for NPS students along Sloat Avenue. The proposed land lease agreement has the potential for positive outcomes for three groups of stakeholders: the City of Monterey and its residents, and the Naval Postgraduate School.

Comparatively, the City of Monterey is fortunate in terms of having a reliable tax base, stable business environment, and town control of its recreation facilities

and good relations with its two military neighbors - NPS and the Army's Defense Language Institute (DLI). The upgrades and capital improvements proposed in the land lease proposal represent a much lower cost, spread over time, than the City of Monterey could expect to pay if it had to purchase land and build new park facilities.

The Naval Postgraduate School is also fortunate in terms of a long-term inflow of military officers obtaining graduate education, and substantial control of numerous buildings and departments, including management of a new \$7 million gymnasium and other recreation facilities. Relinquishing property management responsibilities for the proposed land lease areas could allow the Naval Postgraduate School to increase focus on its primary mission of graduate education. It could retain priority use of the facilities and obtain the benefits of capital improvements to the property.

However, both entities are facing substantial challenges and problems. Long-range plans are unclear for existing land and facilities development. Both are experiencing competing demands for scarce resources amid calls for better and more services. Both face increasing pressure from diverse stakeholders to obtain substantial return on investments and reduce costs. There is confusion over the emerging roles and implementation of outsourcing, privatization, benchmarking, and the ambiguous compensation mechanism inherent in public-public and public-private partnerships.

B. RESEARCH OBJECTIVE

The overall objective of this research is to describe and analyze the process of public-public partnerships and business partnerships between the Navy and a local government, particularly, the exchange of Navy properties (real estate) and/or services for moneys and/or services. Stakeholder and SWOT analysis are used as methodologies and tools to study the land lease process. The objective is to describe the public-public partnership process using NPS and the City of Monterey as an emerging example whereby lessons learned can be generated for future endeavors.

C. RESEARCH QUESTIONS

1. What are the potential costs (negative impacts) associated with the proposed land lease agreement?
2. What are the potential benefits (positive impacts) associated with the proposed land lease agreement?
3. What are the strengths, weaknesses, opportunities, and threats (SWOT Analysis) associated with the proposed land lease agreement from the perspectives of the three major stakeholders: NPS, the City of Monterey, and City of Monterey residents?
4. What are the fundamental issues (problems or challenges) observed during the process?
5. What is the Fair Market Value (FMV) and the assumptions concerning the proposed land lease agreement?
6. What are the strengths and weaknesses associated with using Service-in-Kind as the payment method for the proposed land lease agreement?

7. What are the strengths and weaknesses associated with using Cash as the payment method for the proposed land lease agreement?
8. What is the cost avoidance vs. cost savings valuation for NPS as a result of the proposed land lease agreement?
9. What are the emerging business plans for the proposed land lease agreement?
10. What are the primary strategic issues involved in the proposed land lease agreement, i.e., major challenges and problems involved in the process and implementation of an agreement?
11. How does the proposed land lease agreement "fit" with the stated strategic plan of NPS and the City of Monterey, i.e., relevance of missions(s) to the proposed agreement?
12. What services would the City of Monterey provide and what evidence supports increased efficiencies?
13. How do NPS and the City of Monterey compare regarding recreational facilities management costs?

D. SCOPE

This thesis examines and compares the cost (negative impacts) and benefits (positive impacts) of a proposed land lease agreement between the Naval Postgraduate School and the City of Monterey, California. It analyzes the costs and benefits of the proposed land lease agreement from the perspective of three main stakeholders: the Naval Postgraduate School, City of Monterey, and the residents of the City. It examines public-public partnerships for recent historical transactions to glean trends and lessons learned. This thesis draws conclusions and makes recommendations relative to the efficacy of the proposed

land lease agreement and the effectiveness of the overall process.

E. METHODOLOGY

Data for this study consists of proposals and design inputs from the Naval Postgraduate School Public Works Department, City of Monterey Director of Public Works, and City of Monterey Project Development and Construction Manager. A literature review summarizes business practices and industry publications relating to public-public and public-private partnerships, lessons learned from partnerships between municipalities and military installations, aspects of the ongoing Revolution in Business/Military Affairs, and Joint Vision 2010. [Ref. 42]

Semi-structured interviews were conducted with 23 participants including civilian and military managers, comptroller personnel, and various customers and persons from the three main stakeholder groups. Stakeholder and SWOT Analyses were used as methodologies to analyze stakeholder perceptions concerning the proposed agreement.

A financial cost/benefit analysis could not be conducted. The City of Monterey provided financial maintenance and management data representative of a park comparable to that being considered for lease. However, relevant financial, maintenance, and management data from the Naval Postgraduate School could not be obtained.

F. BENEFITS OF THE STUDY

This thesis provides a detailed description of the process surrounding the proposed land lease agreement between the Naval Postgraduate School and the City of Monterey, California. Through description and analysis of the key issues, we highlight problem areas in the proposed agreement and provide analysis into the role of stakeholders regarding the relevance of their concerns in the final decision to lease the property. This thesis is intended to support the Naval Postgraduate School and the City of Monterey in generating emerging business and long range facilities utilization plans.

G. ORGANIZATION OF THE THESIS

The following chapters study the proposed land lease agreement between the Naval Postgraduate School and the City of Monterey, California. Chapter I introduces and outlines the study. Chapter II presents a historical analysis of the use of partnering within the Federal Government to include a review of overall partnering successes. Chapter III provides an analysis of the legislative history of public-private statutes and regulations to include all currently existing governing laws and regulations and their impact on the creative use of partnering to effect progressive change on Navy installations. Chapter IV is an analysis of the data drawn from semi-structured interviews conducted with members of the three primary stakeholder groups. Chapter V contains conclusions and recommendations drawn from the analysis of

the proposal and stakeholder comments. The conclusions and recommendations are directed towards making a possible agreement a viable avenue for increased efficiencies and cost savings for both the Naval Postgraduate School and the City of Monterey.

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II. LITERATURE REVIEW

This chapter provides an overview of competitive sourcing or outsourcing and the business practice known as partnering. Competitive sourcing, outsourcing, and partnering are defined and a brief background of their origins is provided. Examples of outsourcing, partnering, and outgrant programs are provided from the private and public sectors.

A major constant in today's Department of Defense (DoD) budgeting process is that each agency must streamline its operation by pursuing as many cost-cutting measures as possible. When such measures are not voluntarily taken, Congress is forcing the issue through overall budgetary cuts. Service installation managers are encouraged to follow the administration's current policy, which originated from the National Performance Review, to save money by finding opportunities for the privatization and outsourcing of functions now being performed by Federal Government employees and to look for cooperative cost-cutting public-public and public-private partnerships. [Ref. 3]

The 2001 Base Realignment and Closure (BRAC) actions pose additional challenges to the Navy and the Naval Postgraduate School's ability to carry out its military mission. [Ref. 53] BRAC will further reduce the Navy's infrastructure and force it to rethink its strategies for maintaining the flexibility it needs to uphold its readiness posture. To meet these formidable challenges, the Navy, and more specifically the Naval Postgraduate

School, must seek innovative ways to provide graduate and professional education programs that focus on the unique needs of military officers and that explore concepts that can optimize infrastructure utilization. Partnering might offer innovative approaches that could help NPS achieve its educational goals in a more streamlined, restructured environment. Although the Navy has used partnering in the past (as demonstrated by some of the forthcoming examples), we will argue that it has not aggressively exploited this promising business practice in the forms and variants now available.

Historically, organizations used privatization and outsourcing as successful management tools to reduce costs and streamline processes. Nevertheless, the popularity of partnering has varied over the years with the greatest usage tied specifically to special legislation in such areas as contractor-built housing on government land.

Today, policy makers are promoting partnering as a method to increase or enhance facilities and services while decreasing costs. Unfortunately, installation managers exploring partnering initiatives with private contractors and local and state governments run into many roadblocks to their innovative and resourceful ideas. They face a network of Federal statutes and regulations, many interpreted differently from one branch of service to the next, which impede or completely block cost-cutting and partnering agreements. The Naval Postgraduate School and the City of Monterey encounter several of these same obstacles in their proposed partnering agreement.

A. OUTSOURCING

According to the 1998 Defense Reform Initiative (DRI), the basic difference between competitive sourcing and outsourcing is that competitive sourcing assumes a level playing field in terms of continual assessment and improvement of government practices based on competitive forces. [Ref. 15] Outsourcing, on the other hand, assumes that someone outside of government can perform some functions better than the government agency. Ultimately, agencies conduct studies to decide whether to outsource or to retain a function in-house.

1. Definitions

For the purpose of this thesis, we use the term outsourcing for analytical and comparative purposes and define outsourcing as follows:

The government retains ownership and control over operations of the activity through surveillance of the contract. The primary method of outsourcing activities is through cost comparison procedures designed to determine the most efficient and cost effective operation. [Ref. 32]

When outsourced, operations of a function traditionally performed by Government personnel are transferred to the private sector, but the Government retains responsibility and control of the function, i.e., the service to be rendered, how the service will be completed, who will perform the service, and monitoring of the service. Public funds pay for the outsourced function through a contract with the private sector firm.

The Office of Management and Budget's A-76 Supplemental Handbook provides the guidelines for commercial studies in the Department of Defense. [Ref. 32] To compare the costs of in-house and contractor performance, Circular A-76 requires an agency first to review and define what it considers the most efficient organization (MEO). Based on this MEO, an in-house cost estimate is prepared and compared to private sector bids. Selection of the service provider is then based on the "best value" for the government. The government defines "best value" as follows:

A process used in competitive, negotiated contracting to select the most advantageous offer by evaluating and comparing factors in addition to cost or price. It allows offerors flexibility in selection of their best proposal strategy through tradeoffs, which may be made between the cost and non-cost evaluation factors. It should result in an award that will give the Government the greatest or best value for its money. It is the preferred source selection methodology, having been given renewed vigor since Executive Order 12931 was issued on 13 October 94. The Executive Order directs executive agencies to place more emphasis on past performance and promote best value rather than simply low cost in selecting sources for supplies and services. [Ref. 32]

Simply put, "best value" is a combination of cost factors and non-cost factors such as quality, reliability, maintainability, and risk. "Best value" does not necessarily mean lowest price.

2. Background

a. Outsourcing in the DoD

A March 1996 DoD article, "Improving the Combat Edge Through Outsourcing," assumes that DoD is facing unprecedented change. These changes reflect an array of factors including rapidly evolving global political conflicts and increasing operational and personnel commitments on U.S. forces. The United States defense strategy has changed from preparing for global war to managing multiple regional conflicts. Funding and manpower to support numerous regional conflicts seems inadequate. The DoD article states that defense structure and manpower are roughly one-third smaller than they were in the 1980s and the budget has declined by almost 40 percent (in real terms) from its peak in 1985.

To meet the continuing budget and personnel limitations and to fund weapons modernization, DoD increased its emphasis on outsourcing support functions (or commercial activities) to reduce costs and increase efficiencies. Recent studies by the Center for Naval Analysis (CNA) and the Government Accounting Office (GAO) suggest that DoD could save billions of dollars by aggressively outsourcing support functions (or commercial activities). [Ref. 44, 23] In fact, of the approximately 2,000 outsourcing studies conducted to date, roughly 50 percent of the functions are outsourced and 50 percent are retained. Of those functions outsourced, savings to the government average about 30 percent. [Ref. 15]

In 1996, OMB issued Circular A-76, which established federal policy for the government's performance of commercial activities and set forth the procedures for studying commercial activities for potential savings. It stated:

The Federal Government shall rely on commercially available sources to provide commercial products and services. In accordance with the provisions of this Circular, the Government shall not start or carry on any activity to provide a commercial product or service if the product or service can be procured more economically from a commercial source. [Ref. 33]

Circular A-76 represented the Federal Government's endorsement of outsourcing and served as a catalyst for DoD to begin shifting operation of its support services to the private sector. In 1979, OMB issued a supplemental handbook that spelled out the procedures for competitively determining whether commercial activities would be most economically performed in-house, by another federal agency, or by the private sector. OMB revised the handbook in 1983 and again in 1996.

Despite this well-defined policy framework, DoD outsourcing has occurred on a relatively modest scale. [Ref. 39] As previously mentioned, the military services and defense agencies have completed more than 2,000 cost-comparison studies during the past several decades. The early 1980s witnessed the heaviest A-76 activity when almost 300 cost-comparisons were completed. Declining interest in outsourcing was equally dramatic. By the mid-1990s, the level of effort was less than ten studies per year. The decline began in 1989 when Congress directed the

Secretary of Defense to delegate the sole authority to commission an A-76 study to base commanders. [Ref. 45] Base commanders were reluctant to initiate actions that could eliminate government jobs within their command. Thus, the 10 USC 2468 statute had an immediate adverse effect on the number of public-private competitions undertaken. Another example of legislative influence is Public Law 102484, section 312, October 1992. This law established a 17-month moratorium on awarding of service contracts resulting from A-76 studies under Circular A-76. [Ref. 14]

In May 1995, the Commission on Roles and Missions of the Armed Forces (CORM), an ad hoc study group formed under the National Defense Authorization Act for Fiscal Year 1994, refocused DoD's attention on outsourcing. [Ref. 2] The Commission's report stated:

We recommend that the government, in general, and the Department of Defense in particular, return to the basic principle that the government should not compete with its citizens. To this end, essentially all DoD commercial activities should be outsourced, and all new needs should be channeled to the private sector from the beginning. [Ref. 8]

Shortly after the CORM report was issued, its chairman, John P. White, was appointed Deputy Secretary of Defense. In that capacity, he initiated a comprehensive review to identify and act on outsourcing opportunities within the DoD. [Ref. 16]

Although outsourcing functions to the private sector is not a new trend, it is often controversial. GAO data show that 53 DoD competitions were completed between

October 1995 and March 1998, involving 5,757 positions (2,531 civilian and 3,226 military). [Ref. 25] While military positions are candidates for outsourcing, the CNO Outsourcing Program Advisory 97-1 delineates specific guidance regarding military billets. The subject of outsourcing military billets is beyond the scope of this thesis.

b. Outsourcing in the Private Sector

Like the military, American business organizations are also undergoing business environment changes and challenges. Market competition has become global and companies face rapidly changing and increasingly complex business environments. [Ref. 37] Private companies and public sector organizations have taken steps to remain competitive including downsizing, restructuring, or reengineering their organizations. Normally, such reorganization calls for a reduction in personnel through reducing layers of management or by letting contractors provide functions rather than in-house personnel. Outsourcing strategically uses outside providers to perform functions traditionally handled by internal staff and resources. The ongoing global revolution in commercial business practices is encouraging organizations to outsource much of what was once done in-house, thus allowing them to focus on their core competencies. [Ref. 35]

Core competencies are areas where a company can "achieve definable preeminence and provide unique value for customers", while striving to become or to remain an industry leader. [Ref. 38] According to the Outsourcing

Institute, a professional association founded in 1993 to provide objective and timely information on the strategic use of outside resources, an organization must first define its core competencies and those functions of the business that are not core. The organization should then outsource its non-core functions so that it can focus on its core competencies. [Ref. 34] To optimize survival and success, the organization must identify and retain core competencies in-house.

The perceived benefits of outsourcing support functions are similar for the DoD and the private sector. Both the DoD and the private sector seek cost savings and increased efficiency to achieve their goals and compete successfully in today's complex business environment.

c. Examples of Successful Outsourcing Programs

The perception that private firms are more efficient and more effective than public agencies has some merit. New York City, for instance, was losing as much as two million dollars a year on five public golf courses before it turned their management over to the American Golf Corporation in 1983. [Ref. 26] Using standard business solutions, each course now generates up to 200 thousand dollars a year. [Ref. 26]

Another example is C-12 maintenance operations at Naval Air Station, Oceana. In this case, the contractor maintained the aircraft with only two employees who were qualified in all aircraft systems. When the aircraft was scheduled to fly, one maintainer came in and performed the

pre-flight preparations. After the C-12 was airborne, the maintainer departed. When the aircraft returned, one maintainer was waiting to perform the post flight maintenance and prepare for the next event. Rarely were both maintainers required to work over forty hours per week because, unlike the military, there were no additional job requirements to perform such as rate training, watch standing, or inspections. The contractor's flexibility in personnel scheduling allowed for significant savings in labor costs. [Ref. 28]

In another example, Fairfax County contracted with ATE Management & Services Co., Inc. in 1990 to provide bus service to three stations on the Metro rail rapid-transit system serving Washington D.C. [Ref. 26] Buses from the Washington Area Transit Authority had previously served the county. Under the new contract, the county provides ATE Management with buses, a maintenance facility, fuel, insurance, and planning and marketing support, and ATE operates and maintains the fleet of buses. Buses owned and operated by the regional transit authority cost about \$4.85 per mile, while the buses owned by Fairfax County and operated by ATE cost about \$2.60 per mile. [Ref. 26]

3. Outsourcing Summary

It is important to understand the history of outsourcing as a management tool when assessing current activities within the DoD. This section of the literature review defined outsourcing, explored the history of outsourcing within the DoD, and gave a brief summary of

outsourcing in the private sector. Examples of successful outsourcing programs were also presented.

B. PARTNERING

Since the end of the Cold War, both governmental agencies and the private sector have faced unprecedented downsizing and reorganization. Both industries are undergoing extraordinary change resulting from initiatives designed to increase efficiency and cut costs associated with infrastructure. The Quadrennial Defense Review (QDR) emphasized the need to reengineer the DoD's infrastructure and business practices through a "Revolution in Business Affairs (RBA)." Partnering offers the government and private sector an alternative to outsourcing by providing a flexible framework for organizations to work together to achieve their individual goals.

1. Definition of Partnering

At the direction of Mr. John Douglass, ASN (RDA), the Industry-Government Partnering Working Group was created in August 1997 to explore industry-government partnering opportunities within the Department of the Navy acquisition process. The working group developed a resource guide to document its findings and to provide information and examples related to industry-government partnering. Most definitions of partnering come from private sector publications and very little has been written about public-public partnering. The working group defines partnering as:

Government and Industry committed to working together to achieve a common goal as efficiently and effectively as possible, while maximizing quality and minimizing cost. [Ref. 27]

Regardless of the environment (public or private sector) in which partnering is used, most sources agree on the essential elements that define partnering. In this thesis, partnering is defined in broad terms to facilitate discussion of its application to private enterprises, military organizations, and governmental agencies.

Partnering is the act of bringing organizations together through strategic and informed cooperation to achieve the different but complementary goals of each. [Ref. 40] This definition is common in much of the literature in private industry. Partnering often occurs when one or more individuals or groups identifies a problem or need that they alone cannot address due to a lack of funding, skill, or control of resources. By pooling their resources or skills with others, however, they may be able to effectively tackle the problem.

In depth analysis is required to understand how partnering applies to military and governmental organizations such as the Naval Postgraduate School and the City of Monterey. To evaluate the potential for a successful partnering arrangement between these two organizations, it is important to understand the origins of partnering, the elements of successful partnering relationships, the characteristics of failed partnering attempts, and to review several case studies of successful partnering arrangements.

2. Partnering in the Federal Government

The Chief of Naval Operations said:

"One of our primary objectives must be to reduce the cost of operating the Navy Shore Establishment so we can use those savings for people/quality of life, readiness and modernization." [Ref. 4]

a. National Performance Review

Public-Private partnerships are not new to the Federal Government. Throughout the 1990s, military installation commanders were challenged by the Clinton and Gore administration and the National Performance Review to "Foster Partnership and Community Solutions." [Ref. 3] The Secretary of Defense (Cohen) in his Annual Report to the President and the Congress in April 1997 echoed the message.

In the introductory "Message of the Secretary of Defense," Secretary Cohen described the challenges of a world that is "constantly evolving with new security challenges," and listed the Department of Defense's top priorities: [Ref. 5]

1. Attracting and retaining high quality people.
2. Maintaining ready forces.
3. Modernizing the forces.
4. Reforming the support elements of the Department of Defense.

The fourth goal of reforming the support elements of DoD embodies the spirit of "partnering":

Our goal is to operate more efficiently, acquire the best technology, and find ways of saving money for force modernization. Acquisition reform is already revolutionizing the quality and speed of technology acquisition-allowing us to get more for our investment dollars. Achieving program stability, long recognized as a key enabler in limiting cost growth in our modernization programs, is a major objective. The Department will continue to pursue other efficiency initiatives such as examining excess infrastructure, adopting best business practices, and pursuing outsourcing and privatization initiatives where appropriate as a means to do all we can to work smarter and more efficiently. [Ref. 5]

In Chapter 13 of the Report "Business Affairs, International Programs, and Installations," Cohen states:

Throughout the United States, private firms have sought to reinvent how they conduct business in order to produce higher quality products, serve customers better, and reduce costs. At the same time, the government as a whole has sought to streamline and reengineer its operations to increase efficiency, most notably through Vice President Gore's National Performance Review. The Department of Defense is also committed to these objectives. DoD has worked to become a smarter customer, pushing for efficiency and value from suppliers and better access to commercial and international suppliers, while working to ensure that essential defense industrial capabilities are protected. DoD also worked hard to make sure it better manages the resources and installations under its stewardship. Private sector tools like outsourcing, privatization and competition are important instruments in DoD's efforts to do more, and do better, with less. [Ref. 5]

National leadership supports innovation and the private sector practice of teaming with other firms to

provide the capabilities they need, but which are not part of their core competencies.

b. Quadrennial Defense Review

The 1997 Quadrennial Defense Review required DoD activities to reduce support infrastructure and streamline business practices. [Ref. 6] The QDR proposed that DoD:

(1) Make further reductions in civilian and military personnel associated with the infrastructure;

(2) Request authority for two additional rounds of base closures;

(3) Improve the efficiency and performance of support functions by adopting innovative management and business practices, including reengineering, downsizing, and commercializing operations; and

(4) Consider outsourcing more non-combat related DoD support functions, inviting commercial companies to compete with the public sector to undertake certain support functions.

c. Defense Reform Initiative

The 1997 Defense Reform Initiative (DRI) also required DoD activities to reduce support infrastructure and streamline business practices. [Ref. 12] Four major reform efforts, or pillars comprise the DRI:

(1) Reengineering Defense business and support functions, primarily by adopting and applying best practices from the commercial sector;

(2) Reorganizing and reducing the size of DoD headquarters elements and Defense agencies,

including the Office of the Secretary of Defense;

(3) Expanding the use of competitive sources to open DoD's commercial activities to competition from the private sector; and

(4) Conducting two additional rounds of Base Realignments and Closures (BRAC) and eliminating other facilities that are no longer needed or drain resources.

In April 1999, GAO reported that it was too early to assess the long-term effectiveness of the DRI. However, GAO identified several areas where the DoD could build on its initial efforts and give greater momentum to the goal of achieving a "revolution in business affairs." [Ref. 24] Additional efforts might include:

(1) Incorporating other major ongoing reforms in the DRI to develop a more comprehensive and integrated strategy for reforming Defense business and support activities;

(2) Delineating more clearly the funding requirements needed to achieve major reforms; and

(3) Enhancing the Department's ability to measure DRI results, particularly through financial management and related reforms

3. Public-Private Partnership

A public-private partnership is a business agreement between the Federal Government and a private company, local government, or state government involving the exchange of U.S. Government properties (real-estate) and or services for money and/or services.

4. Legal Boundaries for Partnering

Extensive research has been done on the "Legal restrictions on public-private ventures." [Ref. 19] To better understand the legal issues relevant to this thesis, an extensive review of the references and literature previously cited was conducted and excerpts were quoted as appropriate.

Through federal statutes, Congress provides legal authority for and sets restrictions on how the Federal Government may obtain necessary goods and services. Regulations such as the Federal Acquisition Regulation (FAR) and the DoD FAR Supplement give Federal agencies limited authority to interpret or implement statutes. As with any official federal agency endeavor, partnering must be conducted within a framework of laws, regulations, and judicial principles. This section provides an overview of several relevant legal principles and their relationship to partnering.

A number of statutory provisions enacted primarily during the 1990s provide, within limitations, the authority, and framework for partnering. Specifically, provisions in Title 10 permit working capital funded activities, such as public depots, within specified limits, to sell articles and services to persons outside DoD and to retain the proceeds. Central among these limitations is that any goods or services sold by the depots must not be available commercially. Also, the National Defense Authorization Act for Fiscal Year 1995 authorized the Secretary of Defense to conduct activities to encourage commercial firms to enter into partnerships with depots. Further, section 361 of the National Defense Authorization Act for Fiscal Year 1998, provides that the Secretary of Defense shall enable public depots to enter into public-private

cooperative arrangements, which shall be known as "public-private partnerships" for the purpose of maximizing the utilization of the depots' capacity. However, the 1998 Authorization Act does not appear to have expanded the services' ability to enter into such arrangements since section 361 did not contain any specific sales or leasing authority for use in partnering. [Ref. 46, 19]

a. Congressional Control of Funds

The U.S. Constitution states:

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law... [Ref. 52]

U. S. Courts interpreted this clause to mean that executive agencies may only take monies from the U.S. Treasury for expenses Congress has designated. The Courts also interpreted this clause to mean that agencies may not supplement their appropriated funds by trading the use of its property for facilities and/or services without Congressional authorization. In addition, Congress must authorize any construction projects on military land. [Ref. 47]

b. Leasing Authority of Military Services

Title 10 of the U.S. Code § 2667 authorized the Secretary of War to lease "non-excess property" of the United States under his control, in certain situations: [Ref. 47]

(a) Whenever the Secretary of a military department considers it advantageous to the United States, he may lease to such lessee and upon such terms as he considers will promote the

national defense or be in the public interest,
real or personal property that is:

- (1) Under the control of that department
- (2) Not for the time needed for public use;
and
- (3) Not excess property, as defined by
section 3 of the Federal Property and
Administration Services Act of 1949 (40
U.S.C. 472).¹

(b) A lease under subsection (a):

- (1) May not be for more than five years,²
unless the Secretary concerned determines
that a lease for a longer period will
promote the national defense or be in the
public interest;
- (2) May give the lessee the first right to
buy the property if the lease is revoked to
allow the United States to sell the property
under any other provision of law;
- (3) Shall permit the Secretary to revoke
the lease at any time, unless he determines
that the omission of such a provision will
promote the national defense or be in the
public interest;
- (4) Shall provide, in the case of the lease
of real property, for the payment (in case
or kind)³ by the lessee of consideration in

¹ Note: Excess property is defined as "any property under the control of any Federal agency which is not required for its needs and the discharge of its responsibilities, as determined by the head thereof."

² Note: DoN leases for more than five years or with no right of revocation must be approved by the ASN(l&E).

³ Note: Prior to the enactment of this and similar statutes for civilian agency secretaries, "in-kind" payment for leases of Government land was prohibited unless provided for by statutes specifically authorizing the "in kind" payment limited to the piece of real property in question. A line of cases dating back to early

an amount that is not less than the fair market value of the lease interest, as determined by the Secretary, and

(5) May provide, notwithstanding section 321 of the Act of June 30, 1932 (40 U.S.C. 303b), or any other provision of law, for the improvement, maintenance, protection, repair, or restoration, by the lessee, of the property leased, or of the entire unit or installation where a substantial part of it is leased, as the payment of part or all of the consideration for the lease

The statute limits leases to five-years, but allows the Secretary concerned to enter a lease longer than five years if its determined "that a lease for a longer period will promote the national defense or be in the public interest." [Ref. 47]

c. Miscellaneous Receipts Statute

Any funds derived from the use of Government property or services must be deposited in the general treasury in accordance with the Miscellaneous Receipt Statute. [Ref. 49]

Decisions of the Comptroller General which refer to the Economy Act of June 30, 1932, as amended, 40 U.S.C. 330b, providing that: "Except as otherwise specifically provided by law, the leasing of buildings and properties of the United States shall be for a money consideration only, and there shall not be included in the lease any provision for the alteration, repair, or improvement of such buildings or properties as a part of the consideration for the rental to be paid for the use and occupation of the same. The moneys derived from such rentals shall be deposited and covered into the Treasury as miscellaneous receipts." *National Zoo Coin-Operated Audio Tour Machine Concession*, 42 Comp. Gen. 650 (1963). Another opinion concerning concession contracts in National Parks, which provided for the use of lands and Government-owned buildings providing for repair and maintenance in addition to rent was found to be a violation of the Economy Act since the repairs and maintenance must be construed as part of the rental consideration. (41 Comp. Gen. 493 (1962)).

d. Special Statutory Authority for Rental Income

The statute Leases: non-excess property, 10 U.S.C. § 2667, also provides for a special account in the Treasury for each military department for the disposition of money rentals received pursuant to leases entered into under this statute. [Ref. 47]

The Statute also provides that:

(d) (1)(B) Sums deposited in a military department's special account pursuant to subparagraph (a) shall be available to such military department, as provided in appropriation Acts, as follows:

(i) 50 percent of such amount shall be available for facility maintenance and repair or environmental restoration at the military installation where the leased property is located.

(ii) 50 percent of such amount shall be available for facility maintenance and repair and for environmental restoration by the military department concerned.

(2) Payments for utilities and services furnished lessees pursuant to leases entered into under this section shall be credited to the appropriation account from which the cost of furnishing the utilities and services was paid.

e. Special BRAC Authority

Any rental funds received from a lease of Government property located at a military installation to be realigned or closed under a base closure law "shall be deposited into the account established under section 2906(a) of the Defense Base Closure and Realignment Act of 1990..." [Ref. 47]

f. Concession or Lease

Some installation commanders have attempted to avoid the required Congressional approval of long-term leases by calling the agreement a concession contract. A concession can be a lease, a license, or both:

A concession is a contractual arrangement for the provision of services that is either a lease or a license depending on its terms. If the concession arrangement is non-exclusive, revocable, personal, and non-transferable, and the owner of the real property does not divest himself of any interest in the real property, the concession arrangement is a license. Conversely, if the concession arrangement provides for compensation to the concessionaire should the concession be revoked prior to the expiration of its term, the concession is not revocable and is likely a lease, not a license. A concession agreement could contain both a lease of real property and a license to provide services. [Ref. 19]

g. Real-estate Terminology

To facilitate a thorough understanding of the negotiating process for and the possible implications of the proposed land lease agreement between NPS and the City of Monterey, a variety of terms must be defined.

An **INGRANT** is a contractual agreement (easement, lease, license, permit, or use agreement) that conveys the use of real property owned by another government entity or private concern to the Department of Navy. While an **OUTGRANT** is a contract or agreement (easement, lease, permit or use agreement) that conveys the use of Department

of Navy real property to another government entity or private concern. [Ref. 7]

Uncertainty and confusion exists regarding the difference between a lease and a license. To help distinguish between the two terms, the following definitions are provided:

A **LICENSE** is when personal privilege or permission to go on real property to do some particular act or series of acts that does not operate to confer on, or vest in the recipient any title, interest, or estate in such real property. A license is non-exclusive, revocable, personal, and non-transferable. The owner of the real property does not divest himself of any interest in the real property.

A **LEASE** is the conveyance or grant by agreement or contract of an estate in real property for a specified, limited term with conditions attached. A lease gives the lessee exclusive right to use real property and divests the owner of the interest conveyed to the lessee for a definite term. A lease should be used whenever the subject property is desired for a specified time and the lessee wishes exclusive possession (right to exclude others, including the owner).

An **EASEMENT** is a right-of-way granted to a person or company authorizing access to or over another's land. [Ref. 13] It can also be defined as a non-possessory right to make use of the property of another for a limited purpose.

5. Partnering and Industry Trends

Partnering signifies joint rights and responsibilities, which implies some sharing of risks, costs, or assets. In a partnership, there is mutual leveraging of each partner's strengths. The resulting synergy coupled with close cooperation allows all parties to effectively achieve their common goals.

The ideal partnership progresses in a cooperative spirit that develops from mutual trust, the combination of complementary assets, and shared objectives. In this manner, a partnership is different from the way government generally conducts business. For example, under a traditional contract, there is no leveraging of private-sector expertise or resources. Partnerships also differ from outsourcing agreements, where the government is the buyer and the supplier is the seller. However, recent outsourcing agreements have included elements of partnering. An outsourcing agreement between the State of Connecticut and IBM for data processing included provisions for state officials to have access to IBM's new electronic commerce institute. The reasoning behind the provisions was to introduce electronic commerce to state government operations, e.g., allowing residents to renew automobile registration over the Internet. In exchange for the outsourcing contract, IBM is to educate state officials on electronic commerce. The cost to IBM is low, and the benefit to the state is considerable.

6. Examples of Partnering in the DoD

a. Partnering in the Army

(1) Demonstration Legislation. Because of the Defense Language Institute Foreign Language Center (DLIFLC) and Presidio of Monterey's (POM) close proximity to municipal service providers and public utilities, substantial opportunity existed to leverage the opportunities of scale and in-place overhead by partnering with these organizations for service delivery. Although it was possible for the DLIFLC and POM to contract with another federal agency for service delivery, special demonstration legislation was required to allow the DLIFLC and POM to pursue these opportunities with nearby municipalities. [Ref. 36]

Since the DLIFLC, POM, and Naval Postgraduate School (NPS) are relatively small installations, substantial opportunity exists to save military funds by partnering with nearby municipalities and public utilities for service delivery. For example, the City of Monterey operates a multi-million dollar public works agency delivering a variety of services to the neighborhoods surrounding the Presidio and NPS, while the DLIFLC, POM, and NPS maintain their own stand-alone operations. The opportunities for coordination and collaboration are plentiful. Unfortunately, federal law and regulation made this impossible.

Though the possibility remains for DLIFLC and POM to contract with another federal agency for service delivery (and local agencies collaborate with one another and the State of California on a regular basis) the

coordination of "municipal" services (public works, police, fire, etc.) with local government providers is prohibitively difficult and, in some cases, illegal.

Recognizing the legal limitations, the City of Monterey worked with Congressman Sam Farr and the Department of Defense to secure legislative language that would allow the study of partnering opportunities on a demonstration project basis. The demonstration language (PL 103-337, Sec 816) became effective on October 1, 1994, and required the Secretary of Defense to submit a progress report to Congress no later than December 31, 1996. [Ref. 36] The no later than date was extended to December 1998 and has ultimately been extended through September 2001 to allow appropriate time to measure the success of the project.

The demonstration legislation allowed the commanders of the DLIFLC, POM, and NPS to purchase fire fighting, security guard, police, public works, utility, and other municipal services from government agencies within Monterey County. An in-depth description of the partnering arrangement between the City of Monterey and the DLIFLC is contained in the section entitled City of Monterey, California Overview of Partnering Initiatives, in Chapter III of this thesis.

(2) Other opportunities. The Army believes that there are substantial opportunities within its legal authority to contract with the private sector for the sale of goods and services. The Army has already entered into several partnering arrangements under the legislation covering sales of goods and services. In 1995, the U.S.

Army Depot Systems Command issued policy guidance for its facilities to enter into sales, subcontract, and teaming arrangements with private industry. The Army has also entered into a number of work-sharing arrangements that do not require specific legislative authority. The work-sharing arrangements differ from a sales arrangement because no contract exists between the depot and the private firm.

b. Partnering in the Air Force

(1) Brooks AFB. Brooks Air Force Base in San Antonio, Texas is an important example of a partnership pilot program endorsed by the Department of Defense. The innovative privatization effort, known as the Brooks City Base Project, was authorized in the fiscal year 2000 Defense Appropriates Act and is a demonstration project aimed at cutting costs and improving mission effectiveness for the military. Special demonstration legislation allows Brooks AFB to use capital asset management techniques to provide cheaper base support services, to convey real property to another party and to contract services from municipalities. Under this unprecedented public-private partnership, Brooks AFB and the city of San Antonio have fashioned a mutually beneficial partnership through which the base will provide its real property to the city, and then lease back the facilities as required, on a long-term basis at no cost to the Air Force. In return, the city will provide municipal services at no cost and split any profits from commercial leasing or other business it generates at the base. The city benefits through the sale and lease of the property and through a broadened tax base which will create jobs and provide for the economic well-

being of the community through enhanced development opportunities. The Air Force benefits by an expected reduction of up to 35 percent in base operating costs, an anticipated share of development revenue, and municipal services at no cost to the military. The re-engineering of its support services has already saved the base \$8 million per year. The project has been given until September 2004 to validate itself. [Ref. 30]

c. Partnering in the Navy

(1) Communications Electronics Command

(CECOM). The Navy's Communications Electronics Command (CECOM) and ITT (Aerospace Communications Division) have a cooperative agreement (CA) to demonstrate a network of Hand-Held Multi-Media Terminals (HHMMT) that can transfer voice, data, and video in a multi-hop environment for both defense and industrial applications. The HHMMT will provide the military with a wireless, portable communication system capable of transferring vital command-and-control information on the battlefield while the forces are moving. At the same time, the HHMMT concept may culminate in a series of handheld commercial electronic devices with various applications (e.g., game players, palmtop computers, sophisticated portable graphics/video transmit/receive systems).

The total value of the agreement was \$3,312,600. The government's share was \$1,656,230, half of the cost. ITT is contributing the other half of the project funds, thus allowing CECOM to accomplish its goals at a lesser cost. [Ref. 46] ITT benefits because the government absorbs some

of the development costs associated with potential spin-off commercial products.

d. Other Partnering in the DoD

There have been several other partnering initiatives in the DoD, some of which are cited below:

F/A-18 E/F Engineering & Manufacturing Development (EMD), Integrated Test Team (ITT) for Flight Test – The F/A-18 E/F program formed an ITT to complete the flight-testing requirements of the F/A-18 E/F EMD program. With the shrinking defense budgets and an increased need for affordability it was decided to conduct the flight test program in a participative manner to help reduce the duration and cost of the test program.

Fleet Ballistic Missile Program (FBM) – The FBM program is an ACAT I project focused towards executing the complete program life cycle. The FBM program was started in December 1955, and began partnering in 1956. The weapons system includes three generations of POLARIS as well as POSEIDON, TRIDENT I, and TRIDENT II. The partnering process established at the beginning of the program has been preserved and continues with each generation of the strategic weapons system.

DD 250s as part of the Integrated Digital Environment (IDE) – IDE is a DCMC initiative involving Boeing – St. Louis and four other companies / sites. The intent of IDE is to identify paperless acquisition best practices that can be implemented as a single process. This approach is to be evaluated for application across all of Boeing; and this project is just one of many IDE pilots that have been identified for joint implementation. Both the company and DCMC have a long record of partnering on such efforts, tracing back to their identification as

one of DCMC's 10 reinvention lab sites in 1995 and continuing on in many efforts.

Light Armored Vehicle (LAV) Partnering Program –

The LAV partnering program is an initiative between PM LAV, Marine Corps Logistics Bases (MARCORLOGBASES), and General Motors to provide improved life cycle support for the family of USMC Light Armored Vehicles. The partnering arrangement was proposed due to the decreasing resources available to support the LAV fleet. The partnering program is focused on elimination of duplicative effort, sharing of experiences of customers for the LAV other than the USMC, and providing the Marine in the fleet with better products and services.

AN/SQQ-32 Mine hunting Sonar Power Module –

The AN/SQQ-32 Mine hunting Sonar program is for the replacement of high cost power modules with lower cost, more readily available Commercial Off The Shelf (COTS) power modules. The decision to partner was a result of Navy lab initiatives in order to capitalize on industry experience and test facilities.

PMS 400G/Industry Integrated Process/Product Development Team (IPPDT) –

The PMS 400G/IPPDT was established to bring together knowledgeable management personnel familiar with AEGIS production to brainstorm ideas to increase the use of performance and commercial specifications and standards. Partnering was used to target areas for acquisition reform with the Original Equipment Manufacturers. IPPDT was used as a partnering mechanism because it was an ideal tool to achieve program goals and objectives.

V-22 Engineering & Manufacturing Development (EMD) Flight Testing –

The V-22 EMD flight testing contract is a cost plus award fee contract, established to conduct developmental flight test of V-22 engineering development model aircraft. The partnering effort has demonstrated applicability to flight test of military aircraft

in that it can lead to more efficiency and less cost than old school serial testing by each organization separately.

Javelin Antitank Weapons Systems – Javelin is a medium range, man portable, shoulder-launched, imaging infrared, fire-and-forget anti-armor weapon system. The acquisition reform partnering initiative helped in eliminating lengthy negotiations.

Expeditionary Arresting Gear System (M-31) – The M-31 partnering program involves the use of joint industry-government partnering to develop, produce, field and support an expeditionary arresting gear for the U.S. Marine Corps. The decision to partner helped optimize the design and production efforts by bringing the talents and experiences of both industry and government together.

LPD 17 Amphibious Transport Dock Ship – The LPD 17 program is the functional replacement for the LKA 113, LPD 4, LSD 36, and LST 1179 classes of ships. The LPD 17 program implemented an IPPD management structure with the majority of the program office co-located with the prime contractor. The need to reduce the cost of procuring ships and at the same time reduce the cost of ownership prompted the program office to look at new ways of doing business.

Reserve Component Automation System (RCAS) – The RCAS Project will provide the Army National Guard and the U.S. Army Reserve with a single, modern automated information system designed to support commanders, staffs, and functional managers in the mobilization and administration of Army Reserve component forces. Partnering was introduced to improve communication and cost/schedule/technical performance.

Virginia Class Submarine (formerly New Attack Submarine) – The Virginia Class submarine is the nation's stealthiest sea control platform of the

future. Embodying revolutionary technology and extraordinary capabilities at an affordable cost, the Virginia Class Submarine is a deterrent that will project power around the world and serve as our nation's forward presence. Partnering between the government, shipbuilders, and industry suppliers is being used to design and build a superior ship at a cost that provides extraordinary value for our taxpayers.

7. Partnering Summary

It is important to understand the history of partnering as a tool used to reduce the overall risks and costs borne by each partner through the mutual leveraging of each partner's strengths. This section of the literature review defined partnering, explored the history of partnering within the Federal government and the private sector, and highlighted industry trends. Examples of successful DoD partnering programs were also presented. Chapter III will provide historical and current views of the Naval Postgraduate School and the City of Monterey. Chapter III will also present partnering initiatives under review by NPS and discuss existing City of Monterey partnering initiatives.

III. BACKGROUND AND FUTURE PLANS OF THE NAVAL POSTGRADUATE SCHOOL AND THE CITY OF MONTEREY

A. NAVAL POSTGRADUATE SCHOOL BACKGROUND FACTORS

The Naval Postgraduate School (NPS) is unique because it is both a military and an academic institution. Quoting its public website, it is a "highly focused, pragmatically oriented research university dedicated to excellence in teaching, research, and service in pursuit of providing the knowledge required of our forces of today and tomorrow." [Ref. 53] Its overall goal is to enhance the security of the United States through graduate and professional education programs focused on the specialized educational needs of military officers. These programs are sustained by research and advanced studies aimed at satisfying Department of the Navy (DoN) and Department of Defense (DoD) requirements. The school's primary mission is to increase the combat effectiveness of U. S. armed forces and its allies, while contributing to the fundamental scientific, engineering, policy, and operational advances that support DoN, DoD, and other national security establishments.

NPS is situated on a 627-acre military installation located 120 miles south of San Francisco on the Pacific Ocean, in Monterey, California. The current site has been home to NPS since 1947 and houses modern laboratories, academic buildings, a world-class academic library, government housing and numerous recreational facilities.

The student body at NPS consists of approximately 1,500 student officers from the five U.S. uniformed

services, including officers from about 30 foreign countries, and a small number of DoD civilian employees. Selection of officers for fully funded graduate education is based upon outstanding professional performance, promotion potential and a strong academic background.

When NPS first emerged in the late 19th century, there were relatively few advocating the idea of a graduate education facility for naval officers. But, with Marconi's wireless invention in 1901, the 1903 Wright brothers' flight, and the global trek of the steam-powered White Fleet from 1907 to 1909, intrinsic value in advanced education for U.S. naval officers gained support.

Today, NPS provides more than 40 programs of study, ranging from the traditional engineering and physical sciences to the rapidly evolving space science and information technology programs. Growth in the international student body over the last three years has brought an increase in expenses tied to providing graduate education, yet the amount of funding provided by their parent nations has not risen accordingly. More importantly, budget pressures have relegated facilities and real property maintenance and upkeep to an increasingly lower priority. In addition to the budgetary pressures, outspoken opponents of a Navy-run graduate school are increasingly vocal.

From approximately 1998-2001, NPS has increasingly studied outsourcing as a means to cut costs while still providing required operating support services to the installation. In 1998, the Supply Department of the former Naval Support Activity, Monterey Bay (NSAMB) came under a

Commercial Activity (CA) study. The Supply Department was the first major department within NPS to undergo a CA study. In the fall of 1999, prior to the disestablishment of NSAMB, the Supply Department lost its bid to retain government operation of its functions and was outsourced under commercial contract to a private firm, Integrity Management Enterprises (IME). Operating under commercial contract (N00244-99-C-0052), support services once furnished through the school's own Supply Department are now provided by IME. Those services include: warehouse operations, receipt and invoice processing, mail processing, purchase card program administration, minor property management, bachelor quarters management, and other general support services.

Other NPS departments such as Public Works (PW) and Information Technology (IT) are currently under CA studies. If these departments cannot reorganize and develop a most efficient organization (MEO) that can compete with bids from outside contractors, they too will likely be outsourced. Additional areas within NPS, such as the Administrative Support Assistants (ASA) and housing management and maintenance, are conducting Functionality Assessments (FA) in order to streamline, increase competitiveness, and avoid a CA study.

B. NAVAL POSTGRADUATE SCHOOL FUTURE PLANS AND INITIATIVES

The Naval Postgraduate School vows to become "the cornerstone of military-relevant graduate-level education for all Naval services, other U.S. militaries, and [its] allies." [Ref. 53] At the dawn of the 21st century, the

Navy is poised at the crossroads of three major movements: the Revolution in Military Affairs (RMA), the Revolution in Business Affairs (RBA), and the Revolution in Educational Affairs (REA). Many factors are driving these ambitious and complex initiatives including the expanding role of competition in the government sector, new requirements and methods of conducting warfare, and information technology and distance learning. NPS continually seeks to position itself to provide the Navy and DoD with the specialized, highly educated officers needed in the new century.

Once generally known as the "Navy's University," NPS is attempting to rebrand its image as the Navy's "Corporate University." Under the leadership of its current Superintendent, Rear Admiral David Ellison, NPS pursues a new vision:

While maintaining its primary commitment to provide a unique educational opportunity to Navy and Marine Corps Officers, the Naval Postgraduate School (NPS), taking advantage of the Revolutions in Business and Military Affairs (RBA/RMA), will become the catalyst for a Revolution in Education Affairs (REA). Over the next decade, NPS will reengineer itself to provide flexible cutting edge academic, research and continuing education programs to Military Officers and DoD civilians from around the world. Prior to 2010, NPS will be ranked by education experts as among the top ten graduate education institutions in the Nation. [Ref. 53]

Commensurate with this vision, NPS has restructured into four schools to consolidate and focus curriculums, and is expanding its scope of distance learning, executive seminars, and continuing education programs. NPS is also attempting to accommodate its diverse student body and

faculty on and off campus with required services and support material.

NPS, like many other government entities, attempts to balance the concepts of traditional core values and mission with reinvention and reengineering initiatives brought on by competition and reduced budgets. The reinvention process encompasses a wide range of options, including: consolidating, restructuring or reengineering activities and functions; regionalization; adoption of better business and management practices; and streamlining, outsourcing, or eliminating non-governmental services and programs.

Like other Defense and federal organizations in the United States, NPS is pursuing a systematic and vigorous effort to identify ways to reduce costs and improve the performance of its support activities. NPS operations are conducting business process reengineering reviews and developing proposals for outgrant initiatives and partnering projects aimed at identifying opportunities, increasing efficiencies, and reducing infrastructure costs. The NPS Strategic Planning Model includes four fundamental enablers: institutional advancements; revolutionary business practices; facilities partnerships; and manpower/personnel efficiencies. Two of the four enablers (revolutionary business practices and facilities partnerships) appear vital to the school's efforts to leverage underutilized facilities. Changes in business practices and development of facilities partnerships could generate potential savings and other benefits.

Several outgrant initiatives are in their early phases. These initiatives are intended to capitalize on

underutilized land and building assets to reduce operations and maintenance (O&M) costs, garner additional cost avoidances and enhance the overall condition of the school without degrading mission accomplishment. The primary initiatives under review are: City of Monterey leasing initiatives for the Del Monte Lake and adjacent lands, the Monterey Pines Golf Course, and the Monterey Fairgrounds; commercial leasing initiatives for the Roman Plunge Pool, King Hall Auditorium, and the Senior Officers Quarters; academic partnership with California State University at Monterey Bay (CSUMB) for the beach labs and marina area.

In an effort to ensure that the above initiatives will provide the school with the largest possible benefits, NPS is updating its 50-year campus land use plan, and is undertaking a long-range Regional Shore Infrastructure Plan (RSIP). Phase I of the plan focuses on the academic facility assets and a revised vision for the future. The plan was initiated as part of a forward-thinking strategy intended to provide a framework to manage future development and recapitalization of academic facilities. The idea is to keep in pace with expected changes in technology, and changes in curricula, business practices and infrastructure. In April 2001, the OnyxGroup won the RSIP contract. The OnyxGroup will provide an overall plan outlining the best way to utilize the school's assets in context with other DoD agencies and the local community. A major objective of RSIP's current planning efforts is to reduce infrastructure costs through leasing ventures with the City, ventures with commercial entities, public private ventures, academic partnerships, and utility privatization. The plan is scheduled for completion by summer 2002.

C. CITY OF MONTEREY BACKGROUND FACTORS

Monterey's historic character, natural beauty, and unique attractions have established it as a quality residential community, as well as one of the premier tourist destinations in the United States. Monterey prides itself on being a clean and safe place to live and visit. A keen sense of community and environmental preservation is reflected in the numerous, ongoing activities and events held in Monterey. Of particular note is the City's annual Fourth of July celebration complete with parade and fireworks, as well as wine, squid, and whale festivals. Monterey's recent designation as a "language capital of the world" reflects both its diverse culture and the Defense Language Institute (DLI), which trains thousands of military members in a number of foreign languages.

Monterey Bay is located approximately 125 miles south of San Francisco and 345 miles north of Los Angeles. The City of Monterey was founded on June 3, 1770 and incorporated on May 30, 1850. Monterey served as California's first capital and hosted California's first constitutional convention in the city's historic Colton Hall, where the state constitution was signed on October 13, 1849. Monterey is a Charter City, which operates under a City Council/City Manager governmental structure. Monterey became the center of a thriving fishing industry at Cannery Row during the 1930s and the 1940s. Today, a smaller commercial fishing fleet and industry continues to operate from the city's harbor marina at Wharf #2.

Monterey covers 8.62 square miles of land and has a population of approximately 33,000. The area population increases to nearly 70,000 at the height of tourist seasons.

Historically, Monterey has been a key military outpost and training location due to its central coast location and expansive, brush-covered rolling hills. While military requirements have changed in the post Cold War era (reflected in the closing of the Fort Ord Army military base), the presence of the Naval Postgraduate School and DLI still constitutes a substantial military presence in this relatively small city.

D. CITY OF MONTEREY CURRENT PARTNERING INITIATIVES

The City of Monterey has several partnering initiatives already in place. The City was recognized by the National Association of Installation Developers (NAID) for its pioneering approaches to partnering with the Department of the Army at the Defense Language Institute Foreign Language Center (DLIFLC) and the Presidio of Monterey (POM). Six partnering initiatives are described in the following sections: [Ref. 11]

1. Joint Powers Agreement/Base Operation and Maintenance Contract

Under contract with the U.S. Army, the cities of Monterey and Seaside have been providing municipal public works services to the Defense Language Institute Foreign Language Center (DLIFLC) and Presidio of Monterey (POM) and Ord Military Community (OMC) at the former Fort Ord. In

August 2001, the Army expanded the contract with the city to include building maintenance.

Operating as a Joint Powers Agency (JPA), the cities of Seaside and Monterey signed a contract in May 1998 with DLIFLC and POM for the maintenance of streets, fencing and water, wastewater, and storm water systems at the Presidio and the maintenance of streets and fencing at the OMC. The agreement allowed for future partnerships to collaborate on the delivery of "other municipal services."

In 1999, the JPA (formerly known as the Presidio Public Works Agency) was renamed "Presidio Municipal Services Agency" to reflect the changes in JPA's mission which now includes providing an entire range of municipal services, including fire protection and building maintenance, to DLIFLC and POM.

Under the expanded contract, which was signed in May 1999, the JPA maintains about 120 buildings at DLIFLC and POM and 35 buildings at the OMC. The buildings include shopping malls, churches, a movie theatre, libraries, barracks, clubs, a sports center, and administrative buildings. As part of the contract, the building maintenance crews from the City of Monterey operate from facilities and shops at DLIFLC and POM, ensuring that support and services are more readily available. The service contracts are priced at the JPA's cost to deliver the services. The total Army BASOPS savings for the contracted services is over \$1,500,000 per year.

The City of Monterey participated in an open competition with at least three other solicitors to provide Base Operation and Maintenance Services (BASOPS) for the

Presidio of Monterey (POM) and the Ord Military Community (OMC). On September 17, 2001, the City of Monterey won the BASOPS contract for POM and OMC, which together form the installation known as the Defense Language Institute Foreign Language Center at the Presidio of Monterey.

The Directorate of Contracting (DOC) for the installations intended to contract with one or more local governmental entities to provide public works and utility maintenance services to the POM and OMC. This effort was pursuant to the 1995 National Defense Authorization Act. Specifically, Public Law 103-337, Section 816, authorized the "Demonstration Project" at any DoD asset in Monterey County, CA. This legislation was extended through September 1998 by a proposal in the 1997 Appropriations Act from Congressman Sam Farr (D-Carmel).

The DOC approached all four cities on the Monterey Peninsula, as well as the County of Monterey, to determine their interest in submitting proposals. The City of Monterey expressed interest in submitting a proposal for the POM, while the City of Seaside expressed interest in submitting a proposal for the OMC. Although DOC attempted to foster competition by soliciting all local governments, it was determined that both of the installations were entirely within the franchised areas of the city of Monterey (POM) and the city of Seaside (OMC), thereby making this a sole source to each city.

It was initially contemplated that two contracts, one for the POM, and one for the OMC would be awarded. However, after considerable discussion, the cities of Monterey and Seaside entered into a Joint Powers Agreement.

This agreement resulted in the creation of the Presidio Public Works Agency (PPWA). This was intended to streamline administration, and provide one point of contact for the contract wherein each city was equally responsible for performance, as well as allow the two members of the PPWA to act as back-up for each other. After submittal of their initial proposals and several discussions, it was determined that a Firm Fixed Price contract would be inappropriate. Therefore, the solicitation was subsequently reissued in April 1998 as a Cost Reimbursement solicitation. The Directorate of Public Works (DPW) prepared a revised Independent Government Estimate, with assistance from the U.S. Army Center for Public Works (USCPW). The Statement of Work (SOW) was rewritten to reflect conversion to a cost type contract. The revised solicitation included services for Water Distribution System, Waste Water Collection System, Storm Water Collection System, Fire Suppression and Detection, Street Maintenance, Elevator Maintenance, Pest Control, Grounds Maintenance, and Fencing Maintenance, although some of them are not being exercised.

The contract was awarded on 13 May 1997 as a cost reimbursement contract. The contract had a base period of 1 June 1998 through 31 May 1999, and four one-year options. If all option years are exercised, the completion date will be 31 May 2003. To our knowledge, this is the first contract of this type anywhere within DoD. The PPWA operates out of the respective cities' corporate yards, facilities, and shops at DLIFLC and POM to ensure that services and support are immediately available.

Beginning August 2000, the heating, ventilation, air conditioning and hot water systems maintenance services were added to the BASOPS contract to provide support to the POM and OMC during the transition period between contractors.

2. Fire Protection Services for POM

The City of Monterey has provided contracted fire protection support to DLIFLC and POM since the 1950s. In May 1999, the U.S. Army again contracted with the City to continue to provide fire protection support at the installation because of the City's efficient fire protection service and competitive costs. This contract was part of the expanded BASOPS/Joint Powers Agreement between the Army and the cities of Seaside and Monterey. The Fire Protection Services were added to the BASOPS contract, under the demonstration language on June 1, 2000, but was subsequently removed and opened for competitive bid with other municipalities when questions arose surrounding the continuation of the demonstration legislation.

3. Child Development Center

Faced with resource constraints, the DLIFLC and POM closed the Child Development Center (CDC) located on the Presidio in favor of continued operation of the CDC on the Ord Military Community eight miles away.

As a result, the community stepped forward with a proposal under which the City of Monterey is leasing the CDC on the Presidio and contracting with an outside provider to manage the childcare operation. [Ref. 43] The newly renovated CDC opened in August 2000. DLIFLC and POM

granted the City of Monterey a Right of Entry in 1998 whereby the City could take possession of the building and begin preparations for opening the center. DLIFLC and POM continue to receive the same level of support that they had previously required, and the community is able to leverage the badly needed childcare capacity. Staff at the City of Monterey, DLIFLC and POM and the Sacramento District Army Corps of Engineers worked very closely to develop an agreement for use of the facility.

4. Soldier Field

During early discussions, it was clear that the Defense Language Institute and the City of Monterey's scheduling requirements for using sports fields were largely complimentary to one another.

Soldier Field is a 10-acre sports field complex located at the Presidio of Monterey. In mid-1995, while the Army had land and a need for improved athletic fields, it did not have the resources to construct and maintain improved facilities. The City of Monterey had a similar need for sports fields, as well as resources to construct and operate them, but no land. The City ultimately proposed an agreement to develop and upgrade the Presidio's Soldier Field and then share its use. It became clear during the first planning meetings that the two entity's demands for field space were largely complimentary, and shared use was a very real possibility. A Memorandum of Agreement for the development and joint use of Soldier Field was signed on March 25, 1996.

A second Memorandum of Agreement was signed November 6, 1996 among the following: DLIFLC and POM; the U.S. Army

Corps of Engineers, Sacramento District; the California State Historic Preservation Officer; and the Advisory Council on Historic Preservation regarding The License to the City of Monterey for Operation of Soldier Field as a Recreation Facility. The Secretary of the Army granted the license to the City of Monterey for 25 years beginning April 15, 1997 and ending April 14, 2022. [Ref. 18] The result is that the City provided \$512,450 in improvements to Soldier Field including construction of three baseball fields with backstops, field fencing and dugout areas, installation of an underground irrigation system, and a perimeter running track. Additionally, the City provides maintenance of the fields to include mowing, irrigation and re-seeding. The fields are maintained and scheduled by the City and used for a variety of organized youth and adult sports. The Army uses the fields, placed in service in 1998 for parades and organized sports and physical training. [Ref. 11]

5. Huckleberry Hill Nature Preserve

In 1988, the City of Monterey leased from the Army 81 acres of forested land in the upper portion of the Presidio of Monterey and has maintained and operated this area as a Nature Preserve. [Ref. 17] As a result, the Army has been able to ensure that a sensitive Monterey Pine forest habitat receives needed stewardship at no cost to the Army. At the same time, the community has access to a beautiful forested area with superb vistas and trails connecting to the City's Veteran's Memorial Park.

6. Presidio of Monterey Historic Park

A decades-long dream came to fruition in 1996 when the Army and City of Monterey signed a lease for the City to develop and operate 26 acres in the lower Presidio as an historic park. [Ref. 17] The lower Presidio is one of the most historically significant sites in California. It was a Native American village for millennia, and the site of military fortifications through the Spanish, Mexican and American eras.

The City maintains the area, improved the trail network and established a self-guided tour. The newly renovated Presidio of Monterey Museum already existing on site, re-opened in May 2001. The museum is operated by the City of Monterey and volunteer guides help staff the facility. The property also remains available to DoD for mission use.

The master plan for the development of the Lower Presidio Historic Park was completed in the year 2000. The Presidio of Monterey Museum exhibit, developed in conjunction with the Monterey State Historic Park and the City of Monterey, explores the historic park's military history from the late 18th century to present. Additionally, an oral history project focusing on the life at the Presidio between 1914 and 1945 is in progress. The Presidio Museum opened in 2001 with an exhibition focused primarily on the 20th-century Army post, which housed infantry, cavalry and artillery units. More than 400 visitors come through on a monthly basis. The City of Monterey continues to seek volunteers interested in helping

staff the museum and also is eager to learn of additional artifacts and photographs related to the Presidio between 1902 and 1945.

As part of the City of Monterey's overall plan to connect downtown history with that of the Lower Presidio Historic Park and Museum, the Path of History has been revised to include the park and museum. Circular, gold ceramic tiles embedded in the path's pavement route point the way to various historic sites.

7. Future Projects to Build on Past Successes

a. Fitness and Recreation

Many military personnel and their families make substantial use of the recreation programs and facilities offered by their neighboring communities. These include sports leagues, youth programs, and the swimming pools and other facilities, which are no longer available on the Installation.

Many opportunities exist to increase coordination and collaboration between the military's MWR offerings and those of the community. These opportunities can help save substantial appropriated and non-appropriated funds, increase the variety of program offerings, improve program effectiveness, and enhance the special relationships between military families and the community. [Ref. 11]

To address the growing community demands for affordable recreation and fitness center, plans were developed to expand the Monterey Sports Complex building. The 15,200-square-foot expansion will allow for larger

cardiovascular and weight rooms, a multi-purpose room, fitness testing rooms, more locker space, a larger tot activity room and a snack bar/pro shop. The current 56,000-square-foot building was built in 1992. A majority of the funds, \$4 million, will come from the City's General Fund.

b. Access Monterey Peninsula (AMP)

Access Monterey Peninsula (AMP) is a community nonprofit that was formed to help manage Public, Education and Government (PEG) access to the local cable system(s). [Ref. 1] As part of its contract with the City, AMP provides training opportunities and makes production equipment available so that organizations and individuals can get their info on air.

c. Community of Caring

Community of Caring is a nonprofit organization dedicated to improving the quality of life for youth and families in Monterey communities. [Ref. 9] This collaboration pursues initiatives targeted toward achieving progress on priority issues identified by the Tellus/Díganos project and community discussion.

E. THE PROPOSED LAND LEASE AGREEMENT BETWEEN THE NAVAL POSTGRADUATE SCHOOL AND THE CITY OF MONTEREY, CALIFORNIA

Under the initial provisions of the proposed land lease agreement, the Naval Postgraduate School and the City of Monterey, California would enter into a long-term project for the lease of NPS property to the City. The

project was designed to facilitate a mutually desirable endeavor aimed at preserving for public use existing facilities and recreational activities currently available at NPS, while still providing for full use of and access to those facilities and recreational activities by authorized patrons of NPS. The lease would improve the grounds of NPS for the benefit of both the Navy and local community, while reducing operating costs for NPS and integrating a previously closed property into the local community.

The project would include the following areas to be leased to the City: Del Monte Lake and surrounding land; ball field and adjacent picnic area; heavy vehicle maintenance area; perimeter road around the campus.

The project would also include the following services by the City: upgraded ball field and adjacent parking area; upgraded concession stand, restrooms and picnic areas; landscaping and related maintenance, including the landscaped area between 10th Street and Highway 1 from the 10th Street gate to the ball field; setback and installation of a new academic fence along Sloat and Del Monte Avenues; approximately 95 new, perpendicular parking spaces along Sloat Avenue; a new bike/pedestrian path along Del Monte Avenue; an improved, widened bike/pedestrian path along Del Monte Avenue from Sloat Avenue to the Del Monte Lake; improved drainage for the Del Monte Lake; installation of all necessary improvements; maintenance of the native riparian habitat; preservation of native trees, shrubs and grasses throughout land areas; limited improvements for a walking/jogging path; fence removal/relocation as required; installation of rest benches, picnic areas, and minimal

security lighting for evening use of the Del Monte Lake are; upgraded and resurfaced maintenance yard; other improvements associated with the maintenance and general upkeep of maintenance yard.

Appendix C shows the estimated costs for the City's preliminary list of improvements are in the range of \$1.1 to \$1.3 million dollars. Appendix D shows that the Naval Postgraduate School estimates \$63,000 in annual maintenance savings and another \$1.045 million in cost avoidance for road and fence maintenance, and capital improvements made by the City.

The concept of the land lease agreement requires further exploration by both parties. City of Monterey Neighborhood Improvement (NIP) funds have been released to initiate planning for the Sloat Avenue bike path. The City and NPS have commenced a mutually agreed upon lease appraisal and site survey. The Navy has also contracted for an environmental assessment. Yet, many steps must be taken before the agreement can be finalized. Both parties must agree on the appraisal assumptions and the fair market value of the proposed leasehold properties, and DoD requirements for the academic fence must also be formalized. Additionally, the Navy requires a lease outlining the rights and responsibilities of the parties, along with specifications regarding access to the property in order to facilitate the project.

This section offered historical overviews and some future plans of both the Naval Postgraduate School and the City of Monterey. It supplied a listing of possible future partnering initiatives for NPS, as well as descriptions of current City of Monterey partnering initiatives. It closed

with an overview of the proposed land lease agreement between NPS and the City. Chapter IV provides responses from semi-structured interviews conducted with 23 stakeholders.

IV. STAKEHOLDER DATA

A. NAVAL POSTGRADUATE SCHOOL PERSPECTIVES

Eight semi-structured interviews were conducted with key stakeholders from the Naval Postgraduate School (NPS) to obtain their perceptions concerning the proposed land lease agreement, including potential outcomes. The eight persons interviewed represented a mix of NPS Public Works staff, faculty members, and members of the Engineering Field Activity (EFA) or real estate contingent located in San Bruno, California. Although the sample is relatively small, common themes and/or concerns emerged which are relevant to the topic. Participants were asked the first seven research questions. Their responses are divided into potential cost and benefit categories, and edited for presentation purposes with occasional direct quotations.

1. Potential Costs (negative impacts)

In response to the first question of potential negative impacts associated with the proposed land lease agreement, NPS stakeholder responses were grouped into four categories of potential costs or concerns: civil-military relations; fiscal issues; legal, safety, and security; and other perceptions including personal concerns.

a. Civil-Military Relations

Three stakeholders expressed concern about the proposed land lease agreement in terms of a schism or difference between the Navy and the City of Monterey bureaucracies. A senior military officer stated that concerns might be regarded as negative impacts because NPS

has not done this type of event before. Also, a level of distrust exists between the two entities because they do not know how the other operates. He added that the Navy has a lot of legacy computer systems, and needs to cultivate a better understanding of civilian counterparts.

A senior civilian from EFA stated, "An environmental assessment (EA) will determine what the negative impacts are." Another respondent from EFA felt a major cost was the risk of inadvertently limiting the future of NPS due to the incomplete processing of the proposal through all stakeholders within the process. He felt that the risk was increased because this is a first time effort, and there is a desire to "fast track" these leasing agreements. He indicated that some of the stakeholder roles would not be fully understood until after the agreement is finalized.

b. Fiscal

Five of the eight stakeholders cited fiscal concerns as potential negative impacts. A military officer in the Public Works department stated that the City of Monterey contributed \$14,000 towards the appraisal of the Sloat Avenue easement, but the Navy must supply the remainder of the funds. A civilian from EFA stated that there are also significant costs associated with performing a Fair Market Value (FMV) appraisal and conducting environmental studies, although the environmental studies costs could be borne by either NPS or the City.

A NPS faculty respondent commented that paying for someone else to do the maintenance work would be a cost avoidance, not a cost savings. He stated that an error in

establishing the Fair Market Value (FMV) of our valuable real estate could set a bad precedent for the Navy in future land valuations of this nature.

A NPS military officer in the Public Works department stated that the intense push for outleasing now could be detrimental; i.e., some important issues might be overlooked and NPS might not realize the true cost ramifications of current decisions until much later.

A NPS staff member stated a concern over entering into a long-term agreement that could result in NPS losing rights to the property in the future. He remarked that NPS might be giving away property and not getting a fair return. Three other NPS stakeholders echoed this theme. The respondent declared that a true cost benefit analysis has not been performed at NPS. "We don't know what the break-even point is, so we can't negotiate a fair agreement." He identified that the monies returned to NPS via cost saving would be used for specific functions and could not be easily reprogrammed for mission use. Of the cost savings generated, he stated that the "minimum amount of money NPS can expect to get is 50 percent," with the caveat - "don't expect to get more."

c. Laws, Safety, and Security

A NPS faculty respondent stated that the City of Monterey wants the ball field, but not the Del Monte Lake and the liability issues associated with increased traffic around the lake. Because "law suits go after guys with the big money," the respondent was concerned that if an incident occurred such as a drainage problem with the lake, then the government would be held liable.

Concerns over safety and security issues were also an expressed concern. A faculty respondent and A NPS military officer in the PW department stated that security access inside the fence line could be a precarious situation. Force protection was cited as a particularly troubling matter. Both respondents anticipated difficulties "convincing civilians of a sense of urgency under threat conditions" when the time comes for NPS to assume a heightened security posture and limit base access to military members and government workers.

d. Other Perceptions, Including Personal Concerns

Five of the eight stakeholders voiced concerns regarding property control and future use determinations. A NPS military officer in the PW department expressed concern over the City's ability to meet Department of Defense (DoD) and school requirements. A faculty respondent stated that NPS runs the risk of losing open space, and the unlimited availability to engage in recreational activities on base. He added, "even though they espouse priority scheduling for the military, NPS will lose control of the ball field and the other property to use how and when we want." This faculty respondent added that, "the smaller footprint makes us less versatile and adaptable," and does not necessarily shelter NPS from future Base Realignment and Closure (BRAC).

Another faculty respondent and member of the facilities planning group stated that the proposed agreement "threatens future land use and development, and might severely affect the school's growth potential" by placing excessive restrictions and constraints on future

projects around the leased areas. The possible inability to use the leased property in any manner NPS deemed necessary would represent an "encroachment on NPS management."

A NPS military officer expressed concerns over personnel issues, i.e., the "unions position is constantly in flux." The respondent indicated that union members would be hesitant to support the transfer of facilities management functions from in house personnel to City officials. A NPS military officer in the PW department also expressed concerns over encroachment and priority usage issues, and echoed another variation of personal concerns. His point was that military personnel might lose a sense of pride of ownership in the land lease areas are not theirs anymore.

2. Potential Benefits (positive impacts)

In response to the question of potential positive impacts associated with the proposed land lease agreement, NPS stakeholder responses were grouped into two categories of potential benefits or positive impacts: fiscal and political.

a. Fiscal

Because the City of Monterey has facilities management expertise and the capital budget to upgrade the property and provide economies of scale through its operations, one key NPS military staff officer views leasing the property to the city as a "rational, business like approach to running the facility." Leasing underutilized land and facilities to the city generates a

revenue stream that can be used to reduce base operating and maintenance (O&M) costs. One NPS military officer felt that partnerships that produce reductions in operating costs are a key component of reducing budgetary requirements while maintaining access to the facilities and "keeping the institution alive and solvent."

b. Political

A NPS military officer in the PW department felt that the city could benefit NPS by increasing the use of currently underutilized land and facilities, while "providing a higher level of quality service because that's their business."

A NPS military staff officer viewed the proposed lease agreement as an opportunity to "create inroads with lobbyists and other sources of influence." He also voiced enthusiasm regarding what he considers to be a "golden opportunity for NPS to integrate with the local community, vice operating strictly as a military community." That integration could get the city, county, and state "on our side" and gain political power for NPS. This officer perceived an alliance with local government as an approach to BRAC avoidance, because "working with the city may look better to Congress in the event of another BRAC."

3. Strengths, Weaknesses, Opportunities, and Threats (SWOT)

In response to the question concerning strengths, weaknesses, opportunities, and threats associated with the proposed land lease agreement, NPS stakeholder responses are paraphrased as follows:

a. Strengths

The overriding strength mentioned was the opportunity to reduce operation and maintenance costs through Services In Kind (SIK), while maintaining priority access to the facilities. A NPS military officer from the PW department stated, "There is no learning curve associated with the city taking over these functions, this is what they do best." He referred to the city's successful partnership with the Defense Language Institute (DLI) as an example. He also stated that NPS is in a "win-win situation" because "government can cancel [the lease agreement] at any time." A faculty respondent felt that offsets such as "increased use of city services and waterfront parking would make it all worth our while."

b. Weaknesses

A NPS military officer in the PW department expressed concern over "sole source negotiation with the city." He felt "the city has very little up front capital" required to make necessary property improvements. A faculty respondent was under the impression that monies saved through maintenance cost reductions "will be taken out of our O&M budget, instead of coming to [NPS] to redirect for mission usage." Another faculty respondent fears that "priority use of the facilities by military and retired members will not manifest." He was also concerned about the possibilities of "discriminatory practices with foreign national students," conflicts over the availability and use of the ball field, differences in management structures between the military and the city, and security

issues. He stated that NPS should "work to maintain a military mindset."

A NPS military staff officer saw the risk of failure and the loss of control in some areas of property management as weaknesses. A NPS officer in the PW department noted that NPS is under fiscal constraints and commented on the instability of the city government. He felt that as "the city government evolved and changed based on the voters, the dynamics and priorities" of plans for property usage at NPS might drastically change. His concern was that those possible changes might not be in the best interest of NPS.

c. Opportunities

A NPS military officer in the PW department viewed the possibility of "lowering operating costs, increasing our revenue stream, and leveraging the city's capacity and economies of scale" as a great opportunity for NPS. Another NPS military officer in the PW department commented on the opportunity for NPS and the city to share resources, such as conference centers and fitness facilities. A faculty respondent stated that the land lease agreement "would provide a window for future ventures, such as turning NPS into a country club with a golf course and information, tickets, and tours (ITT) planners." A NPS military staff officer spoke at length about the opportunity "for greater integration with local business and government." He felt the agreement might open the door for better Navy representation within the city and create an avenue by which to distinguish NPS from the DLI.

d. Threats

A faculty respondent fears NPS "will lose control" of the property, and sees a reduced footprint as one more step towards "squeezing us out of Monterey." He felt that the city was anxious to "close the deal" because "if they already have a foothold in the door, then it will be easy to gain the rest if [NPS] is moved out." Another faculty respondent stated, "If we cut deals with the city to give up what we have, perceptions will be that we have less need." He felt giving up what we have "makes us more vulnerable to BRAC, in spite of what is being professed, than if we showed we were making good use of what we have." A NPS military staff officer saw the risk of failure, the inability to achieve full integration into the local community, and control issues as the primary threats. A NPS military officer in the PW department regarded "long-term decisions made in haste" and NPS "becoming so entrenched and in good with the city that we could not extract ourselves when a situation was not beneficial to us" as key threats.

Four of the eight stakeholders could not distinguish any threats to NPS from the proposed agreement.

4. Fundamental Issues (problems or challenges) Observed During the Process

NPS stakeholders responded to the research question regarding the three or four most fundamental issues (problems or challenges) they observed during the process. The four fundamental issues (problems or challenges) delineated by NPS respondents fell into the categories of inadequate involvement of key personnel, lack of true

cost/benefit analysis, unknown negative future impacts, and aspects of the civil-military relationship between NPS and the City of Monterey.

Four of the eight stakeholders cited inadequate involvement of key personnel as a source of problems/challenges. All three respondents were concerned that appropriate staff personnel were not involved with or working the issue. A senior staff respondent was particularly disturbed that NPS subject matter experts (SME) in the Comptrollers office were not at the forefront of providing costing information. He felt that unqualified personnel had been assigned to staff the issue and answer questions without consulting SME for true data. The same respondent was also concerned that the school's major claimant, Field Support Activity (FSA), was not involved in the initial phases of negotiations. An EFA civilian explained that FSA is responsible for clarifying funding issues, federal law and policy issues, and lease provisions and requirements that might not be amiable to the lessee. Yet, instead of laying the ground rules for negotiations, FSA was simply back-briefed as the negotiations progressed. Two senior faculty respondents, who are also members of the NPS facilities subcommittee, felt that there should be more open discussion with facilities subcommittee members and that the legitimate concerns of the members should be explored and not simply rebuffed by the leadership. A major concern of the facilities subcommittee is that the NPS Strategic Plan, with regard to facilities, does not make efficient use of school resources. All four of those respondents agreed that the NPS personnel at the forefront of the negotiations with the city have a "short timer's"

vision, are "out of their depth", and should not be making real-estate decisions for NPS.

A senior staff respondent voiced concern that NPS had not performed a true cost/benefit analysis prior to entering into negotiations with the City of Monterey. The respondent stated that the costing data being used in negotiations with the City was not obtained from or validated by the NPS Comptrollers office. And, without true costing data, NPS cannot estimate the potential cost savings or identify the true impacts of the proposed land lease agreement because our leadership does not know where we are starting from and has no verifiable way of determining that NPS would yield enduring positive gains from the proposed agreement.

Three respondents voiced concern regarding future impacts. A NPS faculty respondent felt that decisions were being made without adequate time being spent to contemplate long-range negative implications. A military officer in the Public Works department felt decisions were being made in haste. He also agreed with the NPS faculty respondent that long-term impacts were not being given sufficient consideration. An EFA civilian argued that currently unknown, yet essential future military requirements that could disrupt the premise of the agreement were not being weighed heavily. He felt that anti-terrorist and force protection concerns that have required the Army to close the gates at the Presidio of Monterey to through traffic have not been fully discussed. Additionally, a future military requirement to withdraw access to an area that has a history of use by the local community and has been

improved by funds provided by that local community could draw strong political opposition. The EFA respondent felt that regardless of how the real-estate instrument was written, attempts by the Navy to take back use of a ball field or lake area that had been improved and regularly used by the local community would create a storm of protest that would leave NPS with "egg on its face".

Finally, two respondents voiced concern regarding civil-military relations between NPS and the City of Monterey. Both felt that mistrust on both sides and the fact that the process is still so new has led to a lack of understanding and an inability to communicate effectively. A senior military officer in the Public Works department used the disparity regarding the fair market value of the property as an example of the conflict in civil-military relationship between NPS and the City of Monterey.

5. Fair Market Value (FMV) and Assumptions Concerning the Proposed Land Lease Property

In response to the question of FMV assumptions and the best method for determining FMV, NPS stakeholders were in agreement that, "although the Navy's appraisal process is flawed," the military should take the lead on establishing the assumptions and selecting the best method for determining FMV.

NPS stakeholders voiced differing opinions on the appraisal assumptions. A NPS military officer from the PW department and a faculty respondent stated that the appraisal assumption should be based on the property's current and "intended use as a passive tract of land." Another faculty respondent and A NPS officer from the PW

department felt that the appraisal assumption should be based upon "comparable transactions throughout Monterey County." A civilian from EFA stated that government property is "normally appraised under the highest and best use scenario."

Similar to the appraisal assumptions, stakeholders also expressed differing opinions on the best method to determine the property's FMV. Two stakeholders, A NPS military officer from the PW department and a civilian from EFA, stated that the best method would be to use the Navy's appraisal process and provide a team of both in house and contract appraisers with a Scope of Work (SOW) and allow them to set the FMV. A faculty respondent felt that the Navy should find out what others would be willing to pay for the property.

6. Strengths and Weaknesses of Using Services-In-Kind (SIK) as the Payment Method

In response to the question of strengths and weaknesses associated with using SIK as the payment method from the City of Monterey to NPS for the proposed land lease property, both strengths and weaknesses were noted.

a. Strengths

During tight federal budgets, managers are looking for innovative ways to reduce operating costs. Three NPS stakeholders perceived SIK as a "cleaner and preferred method of payment," quoting A NPS military officer in the PW department. By using the SIK payment method, NPS can reduce overhead costs by using SIK to provide services such as roadwork, and maintenance and landscaping, thus reducing operations and maintenance (O&M)

fund outlays. A NPS military staff member and A NPS military officer from the PW department presume the O&M fund savings can be reprogrammed to support the school's primary mission of education and maintenance of academic facilities. A civilian from EFA felt the SIK payment method was best because "the compensation for giving up part of their real estate rights remains at the activity."

b. Weaknesses

Six out of eight stakeholders were concerned with the perceived definition of SIK as "quid-pro-quo." Two stakeholders expressed concerns that SIK payment option's initial benefit of lowering overall O&M requirements might eventually prompt the major claimant to cut the school's budgeted O&M funds. A NPS military officer in the PW department indicated that civilians at NPS know the history of the facilities and information gets passed down by word of mouth; therefore, NPS possesses few detailed pieces of documentation, plans, and site maps of old infrastructures. Because of scant documentation, NPS and the lessee might have problems negotiating required levels of service. A faculty respondent voiced concerns regarding the city's priorities in allocation of its resources. He was concerned about the limited possibilities for recourse if the property is not maintained to our standards.

7. Strengths and Weaknesses of Using Cash as the Payment Method

In response to the last question of strengths and weaknesses associated with using cash as the payment method from the City of Monterey to NPS for the proposed land lease property, all eight stakeholders were overwhelmingly

opposed to cash as the preferred payment method for three main reasons: recouped funds flow straight to the Department of the Treasury; DoD policy requires that only 50 percent of the funds be redirected to the generating activity; "color of money" issues often preclude alternative uses of the recouped funds.

Six stakeholders voiced concerns that cash payments would go directly to the Department of the Treasury, and NPS would have to wait years to receive a portion of those funds. The same six stakeholders expressed concerns that NPS would recoup only a minimum 50 percent of the cost savings. The remaining funds would go to the general Treasury fund. Additionally, recouped funds are "earmarked" for specific functions and cost savings are returned to the activity for those specific functions. Therefore, as a civilian staff member stated, NPS would not be able to use those funds to offset mission (academic) costs unless "we asked our major claimant to reprogram those funds." It is at the major claimant's discretion whether or not to reprogram funds based upon current priority needs within the claimancy. If the major claimant chooses not to reprogram the funds, NPS is greatly restricted to how the recouped funds can be used, and that begs the question: "what benefit is the command getting from generating those cost savings?"

One stakeholder, A NPS military officer, stated that NPS should not consider accepting any form of cash payment because cash payments would "kill the budget." A civilian from EFA expressed fears that "if the compensation is converted to cash, the funds are sent to the U.S. Treasury

and neither the station, nor the Department of the Navy are credited for the loss of real property rights at NPS."

This section of the thesis discussed Naval Postgraduate School stakeholder responses to the thesis questions. Potential negative impacts were grouped into four categories of potential costs or concerns: civil-military relations; fiscal issues; legal, safety, and security; and other perceptions including personal concerns. Potential positive impacts were grouped into two categories of potential benefits or positive impacts: fiscal, political, and other benefits. The four fundamental issues fell into the categories of inadequate involvement of key personnel, lack of true cost/benefit analysis, unknown negative future impacts, and aspects of the civil-military relationship between NPS and the City of Monterey.

B. CITY OF MONTEREY PERSPECTIVES

Nine semi-structured interviews were conducted with City of Monterey officials to obtain their perceptions concerning the land lease proposal and potential outcomes. The City officials varied in terms of background, expertise and experience. Three officials had considerable prior military experience. Although the sample is relatively small, common themes and/or concerns emerged relevant to the topic.

Below are summaries of the interviews based on the first seven research questions. Responses are edited for presentation purposes with occasional use of direct

quotations. Responses are grouped based on anticipated costs and benefits.

1. Principal Costs (negative impacts)

City of Monterey respondents' responses concerning the principal costs (negative impacts) were grouped into the following four themes or potential cost categories: political, social, fiscal, and other.

a. Political

Six of the nine City respondents perceived potential impacts of the land lease agreements in terms of negative political costs, i.e., political implications of dealing with the military. Most referred to the uncertainty of dealing with military leaders who are customarily in charge of everything that happens on an installation. One respondent stated, "What the base commander wants done on any given day may exceed standards contracted for or agreed upon, so this may require additional resources to be expended [in City man-hours and equipment] or to be redirected to make the base commander happy." An example of additional grass cutting and grounds maintenance required, outside what is routinely scheduled, when the Presidio of Monterey has some high-ranking official visiting the base, was given to further illustrate his point. Alternatively, if it rains more than usual, the grass has to be cut more often to meet the approval of the base commander.

Another City respondent commented on his "frustration with the military bureaucracy." He indicated that the time it takes to get things done on the military

side is often longer, thereby introducing additional cost factors.

Two City respondents commented on another political or security concern associated with the proposal; military force protection requirements and the negative affect the requirements could have on the City if NPS had to close its gates due to a heightened security posture. He commented on the need for a "long-term vision that looks at force protection issues." If access to the base had to be denied or limited due to force protection concerns once the City of Monterey leased the property and residents got accustomed to having access to the facilities, there could be considerable negative impacts.

One respondent expressed concern about the "impact of gate closures and the logistical problems in getting people to the ball fields." He stated, "Saturdays during the Little League baseball season, there are approximately 700 people who require access to Soldiers Field at the Presidio of Monterey." There probably would not be that many people using the ball field on NPS, but he felt that closing the gates would create a considerable access problem affecting hundreds of citizens.

Another cost cited by two City respondents involved negative impacts surrounding "politics in the neighborhood." Some of the residents living in the neighborhood surrounding the Del Monte Lake oppose the proposed agreement. One official stated, "some will be upset with the City for a long time, even after it is in place."

One stakeholder commented about the political efforts that must be expended in terms of budget actions, "the City council must approve the additional outlay of funds not previously budgeted to bring the Lake area up to City standards." Another City official commented that the creation of an additional 90 parking spaces on Sloat Avenue, and fence construction, benefit the Navy, but provides no substantial benefit to the City of Monterey.

b. Fiscal

All nine City of Monterey officials voiced concern over potential fiscal costs associated with the proposed land lease agreement. Several referred to actual costs associated with the lease, and one was emphatic that, "It is not free!" This respondent hypothesized about actual costs, noting two main areas of development and improvement costs. He estimated the initial costs of front-end tree trimming and path improvements around Del Monte Lake to be in the area of \$40,000 to \$50,000, plus normal maintenance costs. Additionally, one City official mentioned costs associated with hiring additional staff to meet the increased requirements.

One City official projected that it would cost about "50 dollars per square yard just to improve the bike trail," which is part of the easement proposal for Sloat Avenue. He estimated about a half mile of paving, costing approximately \$150,000, not including the cost of grading or lighting for the bike path. He added that the City would need to "program \$175,000 for the project," and indicated that grants would probably be required to help fund the project.

Two stakeholders discussed other fiscal costs. One mentioned \$2,500 the City had already contributed toward the appraisal of the property under consideration for easement along Sloat Avenue. The other mentioned an estimated \$90,000 fee to conduct the Environmental Assessment for the rest of the proposed project. Additionally, he stated, "the City will not realize the full amount of the capital improvements" projected to be expended for this project. He commented on " 120 hours or more that the City has already invested in this proposal." He noted City funds expended on projects that benefit the Naval Postgraduate School more than they benefit City residents, i.e., increasing parking spaces on Sloat Avenue and new fence construction in return for a safer bike path that benefits the students at the Naval Postgraduate School.

c. Social

Five of the nine City of Monterey stakeholders voiced concerns about potential societal implications of the proposed land lease, specifically; impacts to the neighborhood and traffic on neighborhood streets by the residents most closely affected, e.g., residents on Palo Verde, directly across the street from the Del Monte Lake and additional proximity neighborhoods.

City of Monterey stakeholders agreed about the likelihood of increased traffic on the neighborhood streets, and were aware of this substantial residential (social) concern. One City official forecasted that there would be some increase in traffic in the area, but the worst-case scenario would be an initial traffic increase

throughout the neighborhood that would dwindle once the newness of the park area wore off. Another City official commented on "clogging the streets if the two ball fields were linked," stating that neighborhood parking would be impacted if the Peter J. Ferrante Park and the Naval Postgraduate School Park were both scheduled for games.

An additional societal cost, commented one City official is that some residents have a "fear of change taking place." Seeming to empathize with their feelings, he added, "However, it's not just their lake anymore."

On a different note, one City official recognized the potential impact that indigenous creatures might have on traffic, i.e., crossing the streets or getting into neighborhood yards. He referred to some of the residents in the surrounding as "CAVES - Citizens Against Virtually Everything."

d. Other Potential Concerns

One City official commented on the difficulty that he encountered designing the Sloat Avenue project. Difficult issues included: fence location; type of fence; irrigation; trail lighting; bike path location outside or inside the fence; control issues; bike path crossing at 1st Street; fire department access across the trail; usage of limited water rights and access in a force protection situation.

2. Potential Benefits (positive impacts)

City of Monterey stakeholder responses to the question of benefits or positive impacts from the land lease agreement are grouped into four primary areas: social, cultural (improved civil/military relations), fiscal and political.

a. Social

Seven of the nine City Official respondents agreed the lighted ball field at NPS would be a definite asset that would benefit the local community. One participant said "the ball field is the number one benefit from the recreation aspect." The proposed land lease agreement "would provide additional park resources for the City, especially the ball field," another stated. "It would be available for local pony leagues, women's ball games, and for the adult and summer leagues," a recreation official stated. "It could provide an asset for the City by extending the season," said another. In addition, "the City could have access to another field when big games or community sponsored/supported events are occurring on their other fields, which expands the possibilities for usage."

Five of the nine City official respondents envision benefits in aesthetic value for the City of Monterey and the Naval Postgraduate School. They indicated that removing the green chain link fence along Palo Verde and Del Monte around Del Monte Lake and putting up a new NPS sign would improve the school's image and the City's entrance. Additionally, improvements to the walking path around the Del Monte Lake would provide City of Monterey residents with access to and use of beautiful open space and a passive park with "inviting access".

One City official stated that this land lease agreement would benefit the City by "extending our City without having to annex any property." Another stated, "the City of Monterey would gain limited usage of community

resources" and all respondents echoed consensus that the land lease agreement would improve quality of life for residents.

One City official envisioned the Sloat Avenue easement and proposed bike path as providing some benefits to the City. The bike route, could connect Del Monte to Mark Thomas Drive and create safer access to Catalina, Foot Hill and Garden for bikers who now ride their bikes to those areas. The respondent indicated an indirect benefit of less vehicular traffic.

b. Cultural (improved civil/military relations)

City of Monterey respondents saw cultural benefits in the proposed land lease agreement and opportunities to "deepen working relationships between City of Monterey residents and the Navy community." One high level City official affirmed his interest in "keeping what the military at NPS bring to the City of Monterey [in the way of] quality people, historical, social, cultural, as well as economical benefits." One respondent viewed sharing the use of the recreational facilities, especially the ball field, with the military having priority as an opportunity to better integrate our civilian and military communities. He suggested the Navy could use the ball field in the daytime when most military personnel are on campus before, during and after classes, and the City could use the facilities in the evenings. Officials viewed this agreement as a way to help the Naval Postgraduate School by providing improved facilities for the Navy, reducing operating cost, and making physical improvements and performing maintenance at a reduced cost. One saw this as

an opportunity for the school to "increase the value of an asset and reduce excess capacity". It would also reduce base operating cost for the Navy. Interviews with City officials consistently included responses about the objective of mutual benefits for both, with several stakeholders commenting on the benefits of the Sloat Avenue part of the proposal. "It facilitates bike trails from La Mesa to Aguajito via Sloat to NPS and would ease parking for NPS students." One official expressed it this way: "Moving the bike trail off the road is a little safer, but who benefits most? Higher appraisal would mean a higher or longer fence, and more parking for the Navy." Another stated, "It would add parking supply where demand is now, and get cars out the neighborhood." Another commented, "10th street Sloat avenue is really no value added to us, that I can see, it would just be a buffer zone."

Several City officials also stated that the proposed land lease agreement might reduce the possibility, as stated in a 1993 BRAC out-briefing, of the Naval Postgraduate School's selection for closure by the BRAC Commission.

c. Fiscal

Some fiscal benefits of the proposed land lease agreement perceived by City officials included not having to pay the high acquisition cost for the property, and having access to the vehicle maintenance lot. Three City officials viewed the cost associated with the proposed lease as lower than the cost of acquiring comparable property. One respondent stated, "The City gets a great parcel of real estate." Another echoed this view when he

added, "the City of Monterey gains park facilities in exchange for providing maintenance and upgrades to the property, and it can not get much cheaper than that! With minimal land acquisition cost, we can deliver quality facilities to the public." Another stakeholder commented, "the city gains a lighted ball field that requires some improvements, but hopefully will not require \$450,000 like at Soldiers Field," which is approximately what the City invested in capital improvements to refurbish the three baseball fields they currently lease from the Presidio of Monterey for one dollar per year.

Two City officials stated that using or having access to the five maintenance bays at NPS could improve their efficiency by reducing miles traveled and service times because their trucks would not have to go back to Ryan's Ranch. Currently, the City's main facility for Public Works vehicle maintenance is located approximately four and a half miles from town, at Ryan's Ranch, a large compound on the outskirts of Monterey, off Highway 68. The City has a small equipment maintenance yard behind El Encinal Cemetery, off East Pearl Street in Monterey. The Cemetery is currently close to capacity. Relocating this small maintenance yard to the NPS site would give the City room to expand and extend the life of the cemetery. Additionally, City official were in consensus that "keeping the Naval Postgraduate School here continues to provide a revenue stream" for the City of Monterey.

3. Strengths, Weaknesses, Opportunities, and Threats

City of Monterey participants responded to a research question about primary strengths, weaknesses,

opportunities, and threats associated with the proposed land lease agreement as follows:

a. Strengths

Two of the nine City officials did not distinguish any strengths in the proposed agreement. Seven participants indicated multiple strengths. They agreed that the City's administrative capabilities, organizational structure, experience and expertise are existing strengths to completing a successful land lease agreement. The City is fortunate "to have a few more resources than other cities," stated one stakeholder in a management position. "An understanding of cost accounting and of cost allocation [to] capture costs," is significant in management of those resources. The ability to identify cost centers and readily track spending for each activity and function is a strength the City of Monterey stakeholders perceive they have and NPS may lack. One stakeholder, a NPS graduate, proudly stated that "accurate cost data is maintained by the City on all of their activities and from my dealings with them [NPS] during my time, I know that they did not maintain their records that way."

Another stakeholder cited the City's proven record of accomplishment for "expertise in facilities and maintenance, management and accounting" as another strength. City of Monterey stakeholders made many references to the Base Operations Support contract that the City has with the Presidio of Monterey. [Ref. 11] "Maintenance is what we do best," stated another. "The Public Works and maintenance, parks and recreation's people, all have a reputation for doing well."

Additionally, another strength is access as required to other resources the City has at their disposal. "The City provides a full service package [of] maintenance primary, but other capabilities [are readily available] as needed." City stakeholders cited the organization of recreation activities as another activity that the City had dedicated resources to perform. "It's what they do, but of course the Navy would get full and first priority use like at DLI, while we maintain [the property]," stated one City official.

Another City strength discussed was prior BRAC experience. Having faced the Base Realignment and Closure rounds previously with the Defense Language Institute (DLI) and Fort Ord, one high level official felt that, "the experience obtained through our partnership with the Defense Language Institute has made the City more aware of the value of the military."

City of Monterey stakeholders viewed the City's flat organizational structure as another strength. One individual stated that, "there are two levels between authorization and appropriation authority. No huge hierarchy exists, so the decision making process within the City is quicker, more responsive to needs."

Additionally, City officials expressed their intention to make the proposed land lease agreement a "win-win situation" for the Naval Postgraduate School, the City of Monterey, and its residents. "The City of Monterey doesn't need the land," stated one stakeholder. But the "City needs use of the lighted ball field area, that would be a huge benefit." Another official said, providing

parking to the Naval Postgraduate School without them building it is a benefit to the City because it "pulls traffic out of our surrounding neighborhoods."

b. Weaknesses

Seven of the nine City of Monterey stakeholders noted several weaknesses associated with the proposed land lease and two distinguished no weaknesses. One individual noted the "time and money invested in writing proposals and concept plans for the Navy, and nothing ever comes of the effort." He added, "The Navy does not keep deadlines. They have us jumping through hoops to provide information, and then they sit on it or adjust things or dates." One official expressed concerns about the return on the City's investment, stating, "a national emergency would lock all the gates and where would that leave the City? We would invest money into the land and not be able to use it. To re-capitalize the money spent over the time of the lease, the City is looking at a minimum 25 year agreement." Additionally, he added concerns of control over the space.

Another official noted a possible weakness associated with the proposal including possible drainage problems with the lake, stating, "We would now have to maintain where the Navy has had to do it." He also cited concerns about personnel costs, asking, "What do we do with the additional employees that will have to be hired to do maintenance if and when the agreement is unexpectedly cancelled?" He added, "the citizens of Monterey would have to realize some real benefits to drop a half million dollars of general fund on this venture."

Three officials expressed additional comments on weaknesses and concerns. The comments included: "the City has a small budget and limited resources that are subject to fluctuations; there is a potential risk and fact of life that the City would not get 100 percent public support of this venture, or any other; and the City needs to be careful to ensure that the investment does not become cost prohibitive." One official added, "We need to realize there is intrinsic value to the property. It would not be a true investment. The City is not looking to make a profit on the use of the facilities, but to enter into a partnership that will benefit everyone." The City of Monterey is "not as far along with the Navy as with the Army" in building these kinds of partnering relationships."

c. Opportunities

City of Monterey stakeholders see many opportunities associated with the proposed land lease agreement. One stakeholder noted "the opportunity to reduce mission cost for the Navy and improve efficiencies for the City." Also, "maximizing economies of scale - we can easily add to our existing services and get lower overall cost (i.e. street sweeping). Opportunities are available to "develop a stronger relationship between the Navy and the Community, making it more difficult for DoD to close NPS in future BRAC rounds." Two of the stakeholders mentioned the opportunity to "integrate the civilian and military communities for educational purposes."

Additional opportunities cited: "to have first right of refusal language in legislation; to have a Base Operations contract with NPS, similar to that with DLI; and

to build a reputation for being able to do things better, cheaper, and faster." City stakeholders also mentioned the possibility of opening other opportunities like leasing the pool, which is a potential asset; aesthetic improvements to the City entrance; and possible future partnerships. "

d. Threats

From the City of Monterey's perspective, the threats associated with the proposed land lease are primarily related to restricted access to the leased property due to heightened force protection issues, and concerns about the base closing due to BRAC or being moved elsewhere. "If we get to use it and the base were closed or pulled out of the community it would be devastating to the City of Monterey and would create negative thoughts about the military." Other threats associated with the agreement included "territorial thinking" on both sides. One senior official commented, "Time is needed to understand each other." One City official perceived that Navy personnel might be threatened by having to "give up control." He further commented, "the military is used to doing reports, and if the City takes over, reports would not be available in the form that the military wants because we don't track some of the things they usually look at. They may perceive it as putting someone's job in jeopardy if that is what he or she did - reports." Another threat noted by one individual was that "the administration will change before the deal is complete. The bureaucracy will wait-out the individuals with creative ideas. Out of the box ideas may not gain command buy-in."

4. Fundamental Issues (problems or challenges) Observed During the Process

City of Monterey participant stakeholders responded to a research question about the three or four most fundamental issues (problems or challenges) they observed during this process. This section describes those primary issues concerning the ongoing process.

One official cited "lack of continuity of the Navy" as a frustration because "we have only a two to three year window of opportunity to get things done before the installation commander changes." He said, "a lot of time and money is invested in writing proposals and concept plans for the Navy, and nothing ever comes of the effort." He felt the Navy does not keep deadlines. They have us jumping through hoops to provide information, then they sit on it or adjust things/dates." The forth issue he identified is the "bureaucracy in contracting." He stated, "there is no vision in federal contracting." He compared the Navy to the Army, stating, "the Navy is more by the book than the Army." He specifically brought up the Demonstration Legislation, which expires in September 2001, under which the Army took the opportunity to "think out of the box" and to partner with the City of Monterey.

A second City official observed fundamental problems or challenges in the areas of decision-making, differences in expectations, and in specifications. He perceived a flaw in the Naval Postgraduate School's decision-making process stating that, "things are not logical past the Admiral." He remarked that those involved in the process are "slow to make decisions to push forward" as evidenced

by the occurrence of many "unnecessary meetings, and unclear meeting agendas." He also commented that each side has unclear perceptions of what the other side expects. There are differences on views of "the appraisal, compensation, who pays for what, and what the assumptions should be." Differences are also evident in work specifications for the Navy and the City of Monterey.

Another City stakeholder observed fundamental challenges in the areas of balancing improvements with benefits, dealing with cultural differences, and with neighborhood concerns. He commented on challenges encountered with determining how to strike a balance between improvements and derived benefits. He remarked on the cultural differences and in dealing with the "can't do that mentality" of those involved in the process. He observed another problem in the area of addressing public concerns, including those of the most impacted neighborhoods. "It is difficult for them to believe that anything we propose is a direct benefit to the neighborhood, and the traffic impact will be diminimus." He attributed residents' suspicions to possible bad experiences with the military and the City or to just being plain suspicious.

A fourth City official distinguished cultural differences and differences in objectives as the two most fundamental problems or challenges, while a fifth official saw no discernable problems.

A sixth official identified several fundamental issues, which include: interpretation of rules and regulations; perceived constraints; the military mindset;

and the hierarchical structure of the bureaucracy." Echoing a sentiment previously expressed, he remarked that, "very few people can say 'yes', but many can say 'no'."

The seventh City of Monterey stakeholder distinguished fundamental problems determining the property appraisal values, sticking to time lines, and communicating clearly. An eighth stakeholder saw the challenges stemming from two agencies "trying to do good for each other, but running into strict process and paradigms." He stated that the Naval Postgraduate School and the City of Monterey are "charting new territory and collaborating for the big picture with a synergistic, break out of the 'rice bowl' mentality." He also commented on problems with the appraisal process and valuation criteria.

The ninth City of Monterey stakeholder addressed several of the challenges referred to by the previous eight City stakeholders. In addition to those, he mentioned trying to meet the needs and address the fears of the people in the immediate neighborhood, working with in the military processes to get things done, working to bridge the gap between the differences in expectations, and increasing time horizons as key challenges of the process.

5. Fair Market Value (FMV) and the Assumptions Concerning the Proposed Land Lease Agreement

In response to the question of FMV assumptions and the best method for determining FMV, City of Monterey stakeholders voiced differing opinions on the appraisal assumptions. Four City of Monterey stakeholders stated that the appraisal assumptions should be based upon the property's current and "intended use as a passive tract of

land." One stakeholder stated, "Nothing money making could be built on the land. The City of Monterey considers it a passive, open space and that is the best basis for value. The City of Monterey does not plan to use the land in a different manner than its current use - with improvements, they are not trying to make a profit." Another stakeholder questioned the need to know the FMV asking, "Do we really need to know the FMV? NPS is not selling the property to the City." Another stakeholder addressed the FMV of the property under consideration along Sloat Avenue, asserting that "currently there is no value, no public benefit. There is no Navy benefit. As it is now, you cannot put any more parking on the Navy side". Part of the solution to the Navy's parking situation encompasses the proposed bike trail, which would provide additional parking on the outside to support the students and benefit the Navy. He further asserted that the Lake holds "park like value" and the "ball field is probably the most valuable section of property."

Similar to the appraisal assumptions, stakeholders also expressed differing opinions on the best method to determine the property's FMV. One stakeholder suggested the best method to determine FMV would be to "let the market determine the value by having three real estate companies appraise the property." Another stakeholder felt that the highest value lies in the ball field and suggested a method to apportion costs and to determine FMV. His suggestion, "Look at hours of operation and programs put in, calculate usage and split the cost in half." Another stakeholder stated that the best method would be to ask, "What would, or could, the land realistically be used for?"

One stakeholder did not directly answer the FMV question, but commented on the following: "In a practical sense, the assumptions should be part of the negotiations. The City of Monterey will not spend real money without a clear understanding that it will gain true benefit." He went on to state, "In an extreme sense, if the military considers the property to have 'Sovereign Value' there are no controls. It can be look at as what ever you want, even a virtual profit center. The property is now zoned 'HOLD ZONE' by the City of Monterey, and should be appraised using 'highest and best reasonable use', reasonable being the operative word.

6. Strengths and Weaknesses of Using Services-In-Kind (SIK) as the Payment Method

In response to the question of strengths and weaknesses associated with using SIK as the payment method from the City of Monterey to NPS for the proposed land lease property, seven of the nine City of Monterey stakeholders noted strengths and weaknesses, while the other two stakeholders offered no discernible response.

a. Strengths

Three City of Monterey stakeholders saw using SIK as the payment method to be a better deal for both parties. One individual stated that the City benefits because it is "not actually paying for the land, and it's already set up to provide SIK." Another stakeholder stated that use of the SIK payment method would make it "easier for the City of Monterey to absorb the cost of the lease and allow it to spread out the total cost over the length of the lease." NPS can reduce their overhead costs by the City providing

services such as roadwork, and maintenance and landscaping because "they are the experts," one stakeholder stated. "NPS would get a better job, for less money," thus reducing their operations and maintenance (O&M) costs.

From the City of Monterey's perspective, it is "cost effective to simply exchange services," stated one high level official. It would be "done at cost, and [would] relate well to the original collaborative effort."

Another stakeholder commented on the City's ability to provide fast and flexible responses to service requirements. He stated, "The City has excess, existing capacity in the ability to render service and we can create capacity very cheaply by subcontracting."

b. Weaknesses

City of Monterey stakeholders also identified weaknesses in using SIK as the payment method. Two stakeholders expressed concerns about the additional manpower, labor, and equipment, beyond what the City currently has, required for the SIK and what would become of these additional resources if the school is closed or the agreement is dissolved.

Two stakeholders perceived constraints on the Naval Postgraduate School using the SIK method of payment, noting that savings in operations and maintenance resulting from SIK "may not be allocated where we [or they] would like it to be used." One stakeholder expressed concerns over encountering specific challenges with the "interpretation of rules like the title 10 U.S. 2667

Outgrant Authority and the FAR [Federal Acquisition Regulations]."

7. Strengths and Weaknesses of Using Cash as the Payment Method

In response to the last question of strengths and weaknesses associated with using cash as the payment method from the City of Monterey to NPS for the proposed land lease property, the majority of City stakeholders opposed using cash as a method of payment because of possible differences in the City and NPS the valuation of services. Yet, one stakeholder noted strength in using cash. He stated that "cash would be clean cut; \$500 is \$500."

Weaknesses in cash payment identified by City of Monterey stakeholders included concerns about how taxpayers would react to the use of "their money". One official expressed concern regarding "political implications of the perception that we are using their [City resident's] money to subsidize the federal government." Another City official stated, "Property tax payers would balk at using money to buy the lake area. They would argue that they use the lake now, for free, and it's not used that much." He further stated that it might also become a "turf issue." City officials felt another difficulty with respect to cash payment might be the City's limited budget. One official commented that it might be hard to "come up with the cash out of the budget and to prioritize those cash out lays."

This section if the thesis discussed the City of Monterey stakeholder responses to the thesis questions. Principal costs were grouped into four categories: political, social, fiscal, and other. Potential benefits

were grouped into four primary areas: social, cultural (improved civil/military relations), fiscal and political.

C. MONTEREY RESIDENTS' PERSPECTIVE

Semi-structured interviews were conducted with six City of Monterey residents to explore their perceptions concerning the proposed land lease agreement and its possible outcomes. All six residents live in the Villa Del Monte neighborhood located adjacent to the Del Monte Lake at NPS. Although the sample is relatively small, common themes and/or concerns emerged which are relevant to the topic.

City of Monterey residents answered the first four research questions as follow:

1. Principal Costs (negative impacts)

In answer to the first question of negative impacts associated with the proposed agreement, all six residents cited the proposed removal of the fence currently surrounding the Del Monte Lake as a negative impact. The proposed fence removal generated four related concerns: increased transients around the lake; increased traffic in and throughout the adjacent neighborhood; parking problems; and safety/security concerns. The possible misuse of Neighborhood Improvement Project (NIP) funds was also a major concern.

a. Fence Removal

Four residents felt that the proposed fence removal would encourage transients already loitering across the street to cross over into the Del Monte Lake area and

become a nuisance in their neighborhood. Two residents voiced a concern about the possibility of transients dealing drugs and of homeless people sleeping in and around the lake area. Two residents stated that the split rail fence proposed to replace the current chain-link fence would attract the "wrong kind of people" and would not provide adequate protection to keep "undesirable people" out of the Del Monte Lake area and the adjacent Villa Del Monte neighborhood.

Since the closure of the Encina Avenue gate, which created a dead end traffic control on the corner of Helvic and Palo Verde, Villa Del Monte neighborhood residents have enjoyed a street with very little through-traffic. Traffic on Palo Verde street has been limited to residents and the occasional passer-by. In an effort to alleviate fears of new traffic problems, City of Monterey representatives presented area residents with traffic studies that indicated increased traffic through the Villa Del Monte neighborhood would be insignificant. Yet, with the proposed fence removal and increased usage of the ball field, all six residents fear their neighborhood will once again become a thoroughfare for vehicles entering the base from Highway 1 and Del Monte Avenue. These six apprehensive residents do not want the Encina Avenue gate reopened. They feel the results of the traffic studies conducted by the City of Monterey are much too conservative and that the true impact of opening the area to increased traffic will not be fully realized until "the deal is actually done."

At least one resident is under the impression that no additional parking will be created to accommodate the increased ball field usage; therefore, increased parking on Palo Verde by non-residents using the lake and the ball field will become a problem. One example, cited by two residents, was of the current parking problems that loom when Farrante Park is in use. One resident was concerned that people would use the "shortest route to get to the lake once the fence came down."

All six residents mentioned safety concerns for area children and wildlife around the Del Monte Lake. Four residents specifically addressed concerns for the children who use the skate arena and spend time outside the arena waiting to be picked up. The perimeter of the lake is extremely dark and could be very dangerous for such curious young people. The residents also perceive a danger to people with very small children who have not experienced the threat of the lake posing a danger. Three residents were worried about wildlife crossing into the streets and possibly being struck by traffic.

b. Neighborhood Improvement Project (NIP) Funds

Four residents voiced concerns regarding the use of Neighborhood Improvement Project (NIP) funds to make improvements on NPS property. One resident stated that NIP funds should be used for "what the neighborhood needs, not what the City of Monterey wants to do to beautify the entrance to the City and not for others from the outside to use." He felt that proposed projects would not directly benefit the neighborhood enough to warrant the use of NIP funds. Another resident felt that NIP funds would be used

to finance the deal because "the City had already spent its portion of the hotel tax," otherwise known as Capital Improvement Project (CIP) funds.

c. Other Noteworthy Concerns

Several comments had no real consensus, but were noteworthy. One resident was concerned with the City's tax structure and how much the City might pull from local taxes to fund projects at NPS. Another resident stated that the proposed agreement would cause the loss of "[his]" park to league play and parking and would not leave recreational opportunities for the immediate neighborhood. Another resident stated that the agreement would cause the loss of "the exclusivity to [their] private reserve." He also stated that he likes the lake area just the way it is with the birds and the wildlife. A fourth resident stated that the City of Monterey only wants the ball field and are mainly concerned with the City's appearance when visitors enter from Del Monte Avenue. This resident expressed concern for the natural border of the lake. He hopes the city will not "trash" this natural setting by clear cutting the area and stripping the vegetation to make it look like El Estero.

2. Principal Benefits (positive impacts)

In answer to the second question of positive impacts associated with the proposed agreement, three positive areas were noted: increased facility usage; better maintenance; grounds improvements.

Five of the six residents agreed that City use of the lighted ball field would be beneficial to the local

community. The ball field would be available for local league ball games and provide an asset for the City to rent out for other community sponsored and community supported events. Two residents stated that the City is better equipped to maintain the area because they have experts in maintenance and the management of park resources. The City can perform regular maintenance on the flood control system and the sewage gate in the lake; thus providing a greater peace of mind for residents in the flood zone.

Two residents spoke at length about improvements around the facilities to include increased access to picnic areas, better landscaping, increased parking near the ball field, and the repaving or resurfacing of the walking path around the lake.

One resident stated that if the City controlled the property it would be maintained to a higher standard, and an open park with a lake and ball field in his backyard would improve neighborhood property values. He also stated that having the property open would assist the area in becoming more "family oriented by providing more and updated things for neighborhood families to do."

Another resident stated that increased access to the park would be "a good thing." He believed that the Del Monte Lake is a very scenic area and "other people should be able to enjoy the park just like the neighborhood residents."

3. Strengths, Weaknesses, Opportunities, and Threats

In response to the third question of primary strengths, weaknesses, opportunities, and threats associated with the proposed land lease agreement, there was consensus on several issues. While some comments and views, although stated by only one resident, are noteworthy. The residents focused their concerns in two areas: issues in the area of communications and maintenance performance by the City of Monterey.

In the area of communications, residents viewed open discussion between the residents and the City of Monterey as a strength. All residents interviewed perceived the voice of the neighborhood association's president as a strength, whereby issues affecting the neighborhood could be quickly brought to the attention of City officials. Three residents felt that the association president spoke for those who would otherwise not be heard, because they are uncomfortable speaking out in a public forum.

Although they viewed the neighborhood association president's voice as a strength for the neighborhood, three residents felt the president's personality might negatively affect communications with City officials because he was "not necessarily speaking with the 'voice' of the neighborhood, but with a personal agenda."

A strength cited by one resident was that the proposed agreement would allow the neighborhood residents to have communications with City officials that they did not have with federal officials on area issues. The agreement would also afford more stability in decisions for future use of

the area if it were under the City's control. This was contrasted to the uncertainty associated with the lack of continuity in NPS leadership.

One resident viewed the unity of the neighbors, especially those directly across from Del Monte Lake on Palo Verde and their relationship with each other as a strength. He stated that many of the residents are property owners and have lived in the neighborhood for many years, and because of this "we know our neighbors and use each other as 'watchdogs' for our homes and property". He continued that "longevity in the neighborhood results in us knowing our neighbors comings and goings and that makes it easy to keep watch, but we do not want to be a watchdog for other people using the facility."

One resident saw the "lack of neighborhood participation from non-owners" [renters] as a threat, and viewed the threat as an opportunity to unite the community as a group to form a neighborhood board involving less formal discussions and "fireside chats" on the issues, where everyone's voice could be heard, thereby improving communications within the neighborhood.

The City's performance of maintenance on the areas in question was perceived as a strength by one resident, while another resident expressed the view that it was a weakness on the part of the residents, because "the City has the resources to take care of the area, we don't." Another resident also viewed the City's performance of maintenance on the lake area as a weakness. He voiced particular concerns about the City's goal to increase use of the area and about the increased danger to the natural wildlife

because of the feral and domestic cat populations. He sees an opportunity to have the lake remain a natural lake as opposed to being developed. He commented about there being "no segregation of the natural versus developed area", citing the current conditions at Lake El Estero, where there are problems with erosion because of clear cutting. He stated, "Man does not improve on nature."

One resident saw the proposed land lease as an opportunity for the City of Monterey to more easily acquire the property in the event that NPS were to be closed as the result of another BRAC round.

4. Fundamental Issues (problems or challenges) Observed During the Process

Resident's responses to the fourth question regarding the three or four most fundamental issues (problems or challenges) observed during the process resulted in two areas: mistrust of the City and its process to garner community input and involvement, and dissatisfaction with the City's communication process.

a. Mistrust of the City

Five of the residents interviewed expressed a mistrust of the City and the process it uses to garner community input and involvement. All five residents cited a problem in dealing with the City, which included the perception that the City does not hear or listen to their inputs. One resident stated, "The City has their plans drawn up, then holds public hearings which are supposed to be for the residents inputs and information, then acts as if their inputs are irrelevant. They go ahead and do what they have planned in spite of the residents' inputs."

Another resident stated that at the public hearing the "City projected that they were there, but they were going to do what they wanted anyway." One resident stated, "The most highly impacted residents are not given a strong enough voice." Two residents specifically stated that there is "No Trust!"

b. Dissatisfaction with the City's Communication Process

A general dissatisfaction with the City's communication process was noted. Specific comments centered on poor information dissemination, tardy meeting notifications, and the lack of updated information being communicated. One resident stated that it insults the residents to receive letters from the City, even before the scheduled meetings, that read, "Congratulations! We have determined that your neighborhood needs this recreation facility." Another resident noted a lack of advance notice about the meetings, commenting that sometimes residents were notified of a meeting the day before or on the very day of which the meeting was scheduled to take place.

One resident stated that meetings to discuss the proposed agreement should have been more informal. He added that not everyone feels comfortable participating in a formal setting.

Another concern was that the residents were not being kept informed regarding the details of the ongoing process. A suggestion was made that the City update the resident with a monthly newsletter outlining current issues.

c. Other Noteworthy Comments

One individual stated that the main challenges come from "not knowing what whoever is in command at NPS will want." As an example, she discussed a road that had been on NPS for many years and had provided access from the front of Herrmann Hall. The present leadership at NPS had the road, which ran adjacent to his house, removed because he wanted additional privacy. She was concerned that "the future leadership of the school might as capricious and not want the property to be used as the proposed land lease agreement intends." Another resident stated, "The City is promoting a project that they do not understand. They don't know what the Navy wants to give up or what the City wants to accept." He further stated, "Citizens are being encouraged to vote 'yes', but they don't know what they are voting for?"

As described in the preceding interviews, a subset of six Monterey residents provided their perceptions of the costs, benefits, strengths, weaknesses, opportunities, threats, and fundamental concerns surrounding the proposed land lease agreement.

Issues associated with the removal of the fence currently surrounding the Del Monte Lake (i.e. increased transients around the lake; increased traffic in and throughout the adjacent neighborhood; parking problems; and safety/security concerns), as well as possible unpopular uses of Neighborhood Improvement Project (NIP) funds to make improvements on NPS property as negative impacts. Primary benefits included increased facility usage, better facility maintenance, and grounds improvements. Primary

strengths, weaknesses, opportunities, and threats associated with the proposed land lease agreement where focused around two general topics: communications and the City's performance of maintenance on NPS property. The fundamental issues observed during this process were concentrated in the areas of mistrust of the City's process to garner community input and involvement, and dissatisfaction with the City's communication process.

Chapter V will provide conclusions and recommendations.

V. CONCLUSIONS AND RECOMMENDATIONS

This thesis examined the proposed land lease agreement between the Naval Postgraduate School (NPS) and the City of Monterey, California. These two organizations are experiencing competing demands for scarce resources amid calls for increased and better services, and facing increasing pressure from diverse stakeholders to obtain substantial return on investments while reducing costs.

The data for this thesis were derived by reviewing business practices and industry publications associated with partnering initiatives. Semi-structured interviews were conducted with 23 individuals, including civilian and military managers, comptroller personnel, and various customers and persons from the three primary stakeholder groups. This study concludes with suggestions for further study concerning public-public and public-private partnership initiatives.

A. CONCLUSIONS

1. NPS has substantial opportunities to partner with the City of Monterey to capitalize on underutilized land and building assets to reduce operations and maintenance (O&M) costs, and obtain cost avoidances and capital improvements to increase the value of land lease assets.

By combining government expertise, assets, and resources with complementary contributions from the City, a partnership between NPS and the City can offer a variety of benefits. The partnership could incorporate cost sharing projects that pool resources and allow both entities to

accomplish their long-range goals with fewer funds than traditional contractual or outsourcing arrangements would require. The partnership arrangement dictates a collaborative relationship.

Under the terms of the proposed agreement, NPS would lease the underutilized areas of the Del Monte Lake and surrounding land, ball field and adjacent picnic area, the heavy vehicle maintenance area, and the perimeter road around the campus. The City would gain the opportunity to integrate previously closed recreational facilities into the local community in exchange for services and permanent improvements to the designated area in an estimated amount of \$1,300,000 over a 10-year period. The City would also provide continuing maintenance for the term of the lease in the estimated amount of \$117,000 per year. The capital improvements accomplished by the City would increase the value of NPS recreational facility assets through modernization and continued maintenance, and preserves those assets for military use.

Partnering would enable NPS to reduce facilities operation and maintenance costs, while realizing cost avoidance and receiving capital improvements to facilities infrastructure. And, the City of Monterey would gain additional recreational facilities and maintenance areas at a greatly reduced cost as compared to costs to buy land and build the necessary facilities.

2. A partnership between NPS and the City of Monterey could substantially strengthen NPS's position for the anticipated Base Realignment and Closure (2005)

Base Realignment and Closures (BRAC) pose additional challenges to the Navy and the Naval Postgraduate School's ability to carry out its military mission. A successful partnership with the City could assist NPS in not being identified as an installation to close during the next Base Realignment and Closure (BRAC) actions scheduled for 2005. A public-public partnership gives NPS an avenue to integrate with the local community, vice operating strictly as a military community. That integration provides NPS with opportunities to develop stronger relationships between the Navy and the local community and assistance in strengthening the political ties that could make it even more difficult for DoD to close NPS in future BRAC rounds.

3. The system that NPS uses to identify specific cost factors (MAXIMO) appears to be sub-optimal.

A financial cost/benefit analysis could not be conducted. The City of Monterey provided financial, maintenance, and management data representative of a park comparable to that being considered for lease. However, repeated requests for relevant costing information from the NPS Public Works department yielded no useful data to compare against City of Monterey financial data.

A key to NPS being able to reduce facilities operation and maintenance costs lies in its ability to identify costs associated with specific functions. The NPS PW department operates a computerized manager maintenance program that tracks procurement, inventory, equipment, and labor, yet

the PW department was unable to provide the necessary costing information to compare against City costing information. And, as stated in Chapter IV, subject matter experts from the NPS comptroller shop were not utilized to perform an in-depth financial analysis of the functions/areas under consideration for lease to the City of Monterey. Appendix D shows that NPS estimates \$63,000 in annual maintenance savings and another \$1.045 million in cost avoidance for road and fence maintenance, and capital improvement projects to be performed by the City. The estimates represent real savings for the school and would play a valuable role in determining whether or not NPS should pursue the agreement with the City, except the estimates have not been validated by the school's primary financial experts.

NPS would need to perform a thorough cost/benefit analysis before it could accurately estimate potential cost savings/avoidance. A system that provides the capability to break out labor hours, equipment, supplies, utilities, and maintenance costs would assist NPS analysts in gathering accurate data to perform an in-depth cost/benefit analysis.

4. Several fundamental assumptions concerning the appraisal and Fair Market Value of the proposed lease property are clearly contradictory.

The Fair Market Value (FMV) of the property must be ascertained based upon the appraisal assumptions and consensus by senior Navy leadership and the City. Yet, NPS and the City of Monterey differ regarding basic appraisal assumption precepts. NPS's assumptions reveal an intent to

gain the highest possible value for the property and then base services rendered by the City on that final dollar figure. Whereas, the City of Monterey believes the FMV of the land should be set at its current and intended future use.

City of Monterey makes the following major assumptions: the agreement represents a non-commercial, joint partnership lease with no revenue gained by the City or the Navy; the City will lease the property for the public benefit of Monterey residents for recreational opportunities in exchange for negotiated services on, improvements to, and maintenance of said property; the land has no commercial value while under the control of the Department of Defense; the current property zoning, single family, 20,000 square foot lot minimum, is "hold" zoning; the FMV of the land should be set at its current and intended future use.

The Naval Postgraduate School, represented by the real estate arm of Engineering Field Activity, West (EFA West), makes the following major assumptions: the property likely has commercial value regardless of whether or not NPS chooses to take advantage of its potential; the exchange of services, and the amount of improvements and maintenance the City proposes to perform is irrelevant to the value of the underlying property; the Navy is a Sovereign entity, free to use the property in any manner it chooses, and the current zoning is instructional but not operative; the City's intended use may not be the highest and best use of the property, and the lack of a profit motive on the part

of the lessee does not preclude the possibility of a potential alternate profit-oriented use.

Unless NPS and the City of Monterey can modify their positions and obtain consensus around the appraisal assumptions and the subsequent FMV of the property, the agreement, in all likelihood, will not proceed.

5. Although the proposed partnership appears to FIT in terms of the strategic plans of both entities, several key factors differ: cost accounting practices, communication and decision-making structures, and cultures.

The NPS strategic planning model emphasizes the need to focus on teaching, research, and executive education as the core missions of the school. In keeping with the tenets of the 2001 Quadrennial Defense Review report, NPS leadership is working to reverse the damaging effects that years of underfunding and neglect have had on its facilities, the result of which is an eroding infrastructure that is less and less capable of supporting current military requirements. Reversing the existing shortfalls will require additional funds for infrastructure sustainment and recapitalization. The consequence of continuing to neglect the current facilities will be facilities infrastructure that is marginally supportive of the school's primary mission.

The City of Monterey's strategic planning model focuses on acquiring recreational property to support the growing need for such areas. Although the City maintains and operates over 30 parks and recreational facilities, the current facilities are not capable of meeting the demand of the City's growing population. By partnering with local military installations such as the Presidio of Monterey,

the City has been able to increase its recreational facilities footprint while holding down the costs associated with acquiring new lands. The City of Monterey is currently involved in several partnerships that demonstrate the efficacy of such partnering initiatives.

Although the proposed agreement "fits" the strategic plans of both entities, several key differences exist that could make implementation of the agreement problematic. NPS and the City have dissimilar cultures, communications and decision-making structures, and cost accounting practices.

NPS is a highly structured, stove-piped, hierarchical organization. In order to seize the benefits of partnering, NPS would need to adapt its business practices to capture all financial costs and reduce cycle time. It may need to decentralize where historically it has been centralized, flatten decision-making that has historically been hierarchical, integrate where it is often divided, customize what it once struggled to standardize, and use public or private industry to perform functions that were previously jealously governmental.

B. RECOMMENDATIONS

The basis of a successful partnership is that both parties are able to leverage their assets to obtain mutually beneficial results. The efficacy of the proposed agreement hinges on the ability of NPS and the City of Monterey to forge a viable working relationship. Towards that end, NPS could perform a more detailed cost/benefit

analysis to better estimate potential costs and benefits associated with a transaction as complex as a public-public partnership. An alternative system that breaks out labor hours, equipment, supplies, utilities, and maintenance costs should be seriously considered or purchased to assist NPS analysts in developing the cost/benefit analysis.

The City of Monterey is not positioned to pay the amount that might result if the Fair Market Value of the property were set at the highest and best use. Therefore, an agreement on the appraisal assumptions must be reached if NPS and the City are to move forward with the agreement. If NPS hopes to form a true partnership with the City, NPS should revisit allowing the property to be valued based on the current and proposed use.

Finally, we recommend that NPS and the City of Monterey continue working on the proposed partnership, develop a mutually beneficial contract, and implement the partnership. The proposed agreement possesses incredible opportunities for both the City of Monterey and the Naval Postgraduate School. For the City, the proposed upgrades and capital improvements represent a much lower cost, spread out over time, than the City could expect to purchase land on which to build new park facilities. And for the Naval Postgraduate School, relinquishing the role and responsibility of property management for the proposed lease areas would allow NPS to better focus on the school's primary mission of education, while still retaining priority use of the facilities and reaping the benefits of the capital improvements to the properties. Additionally, the proposed agreement would establish a solid partnership

between NPS and the City and help to solidify the school's position in the local community, thus providing a major advantage if the school is targeted in future Base Realignment and Closure (BRAC) rounds.

C. FOLLOW-ON STUDIES

1. Increase efforts to identify and clarify best business practices that make public-public and public-private partnering and/or outsourcing initiatives viable for military organizations.
2. Continue efforts to specifically identify detailed costs and benefits for partnering with public entities, i.e., compare relevant financial and maintenance data for ball fields, picnic areas, and vehicle maintenance areas.
3. Clearly identify legislative restrictions on partnering initiatives and promulgate guidelines for public managers and administrators.

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APPENDIX A

PUBLIC LAW 103-337, SECTION 816 DEMONSTRATION PROJECT

DEMONSTRATION PROJECT ON PURCHASE OF FIRE, SECURITY, POLICE, PUBLIC WORKS AND UTILITY SERVICES FROM LOCAL GOVERNMENT AGENCIES.

(a) DEMONSTRATION PROJECT. - The Secretary of Defense may conduct a demonstration project , beginning October 1, 1994, at Monterey, California, under which any fire-fighting, security guard, police, public works, utility, or other municipal services needed for operation of any Department of Defense asset in Monterey County, California, may be purchased from government agencies located within the county of Monterey. The purchase of such services for the demonstration project may be made notwithstanding section 2465 of Title 10, United States Code.

(b) EVALUATION OF PROJECT. - Not later than December 31, 1996, the Secretary of Defense shall submit to Congress a report evaluating the results of the project and making any recommendations the Secretary considers appropriate, including recommendations on whether the purchase authorities used in conducting the project could be used to provide similar services at other locations.

PUBLIC LAW 104-201, SECTION 352

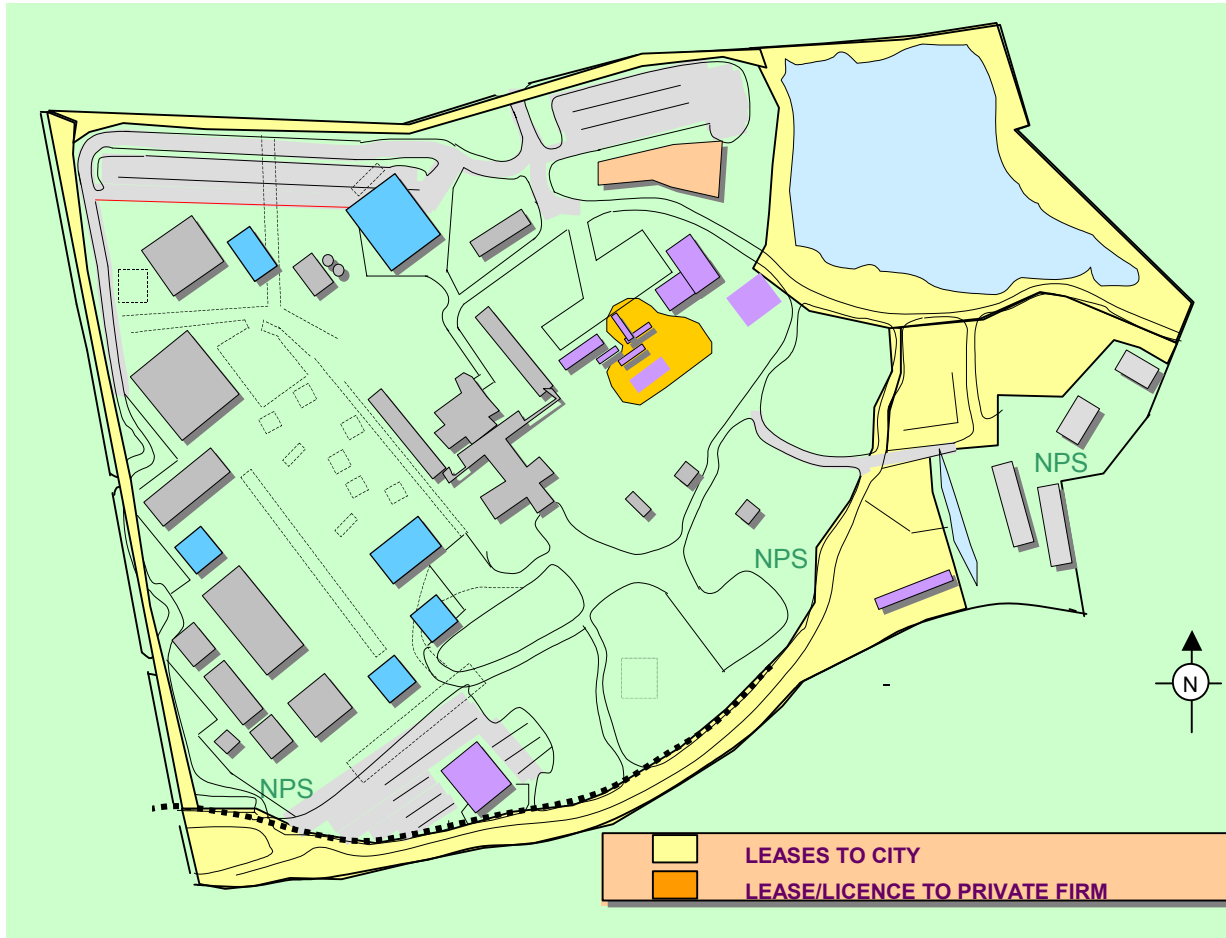
REPORTING REQUIREMENTS UNDER DEMONSTRATION PROJECT FOR PURCHASE OF FIRE, SECURITY, POLICE, PUBLIC WORKS AND UTILITY SERVICES FROM LOCAL GOVERNMENT AGENCIES.

Section 816 (b) of the National Defense Authorization Act for Fiscal Year 1995 (Public

Law 103-337, 108 Stat. 2820) is amended by striking out "1996" and inserting in lieu thereof "of each of the years 1997 and 1998." (Note: This date has been extended to January 2002.)

APPENDIX B

NAVAL POSTGRADUATE SCHOOL MAP OF POTENTIAL LEASING OPTIONS



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APPENDIX C

CITY OF MONTEREY PRELIMINARY LIST OF IMPROVEMENTS FOR THE DEL MONTE LAKE PARK PLAN

<u>IMPROVEMENTS</u>	<u>ESTIMATED COSTS</u>
<u>Northeast Area</u>	As of 1/10/01
1. Tree/vegetation clean-up	60,000
2. Fence improvements along Del Monte and Palo Verde Avenues	60,000
3. Trail improvements around the Del Monte Lake	175,000
4. Ball park improvements/renovations (major/minor)	*245,000/75,000
5. Parking improvements near ball field	75,000
6. Picnic area near ball field	15,000
7. Resurface maintenance yard area	55,000
8. Design/administration of Northeast Area items	60,000
SUBTOTAL (estimate)	745,000/575,000
<u>10th Street, Sloat and Del Monte Avenue Areas</u>	
1. Fence along 10 th Street from gate to ball field	76,000
2. Develop recreation trail along Sloat Avenue	**325,000

3. Develop trail from Sloat to Palo Verde Avenue	40,000
4. Relocate fence along Sloat and Del Monte Avenue	***70,000
5. Street/parking improvements along Sloat Avenue	60,000
SUBTOTAL (<i>estimate</i>)	571,000
GRAND TOTAL	1,316,000/1,146,000

*\$245,000 includes demolition and construction of restroom/concession area; ball field fencing; turf irrigation; soil preparation and seeding

**Costs to be determined based upon level of improvements

***Cost for simple relocation of the existing fence

APPENDIX D

NAVAL POSTGRADUATE SCHOOL PRELIMINARY ESTIMATES FOR ANNUAL MAINTENANCE SAVINGS AND COST AVOIDANCE

<u>ANNUAL MAINTENANCE SAVINGS</u>	<u>ESTIMATED SAVINGS</u>
1. Ball field lighting	40,000
2. Del Monte Lake pump maintenance	20,000
3. Grounds maintenance (primarily trees)	3,000
SUBTOTAL (<i>estimate</i>)	63,000
<u>COST AVOIDANCE</u>	
1. Road maintenance	25,000
2. Fence maintenance (new academic fence)	20,000
3. Capital improvements (performed by the City)	1,000,000
SUBTOTAL (<i>estimate</i>)	1,045,000
GRAND TOTAL	1,108,000

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